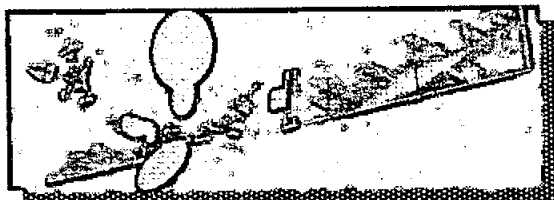


TRADE IN SERVICES IN THE SEACEN COUNTRIES



Edited by
Than Ye



THE SEACEN CENTRE
KUALA LUMPUR, MALAYSIA

TRADE IN SERVICES IN THE SEACEN COUNTRIES

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Than Ye



The South East Asian Central Banks (SEACEN)
Research and Training Centre
Kuala Lumpur, Malaysia

TRADE IN SERVICES IN THE SEACEN COUNTRIES

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FOREWORD

Services in a country's economy are going to be the fastest growing sector, well into the 21st century. The vital role that they are playing in the domestic economy as well as in international trade has been an accepted fact; but, it is only recently that trade in services has received the attention it deserves and has been included in the GATT Uruguay Round negotiations. Given the relative weakness of their services infrastructure, developing countries were hesitant at participating at the beginning of the negotiations. However, they realised the link between services and economic development, and have since become enthusiastic as well as deepened their participation in the Uruguay Round negotiations.

The SEACEN countries have been late in participating in these negotiations but are now quite involved. It is only reasonable that with the growing important role of trade in services in the SEACEN region and its involvement in these negotiations, it develops a better understanding of this subject in various aspects. In response to such a need, this study sets out to review and analyse developments in this economic activity in the region in the context of problems and efforts to deal with them, and examines the Uruguay Round negotiations with emphasis on areas of particular interest to the region. In an attempt to identify and make a systematic analysis of the major determinants of comparative advantage in trade in services, econometric models for the exports and imports of various components of services have also been formulated and analysed in this study. It is hoped that this study will contribute in some way to a better understanding of the services trade in the region and become helpful in policy decisions.

This study was conducted by U Than Ye, Research Economist, with the kind support of Mrs. Jami'ah Jaffar, Research Associate, as a collaborative research project assignment entailing the contribution of country papers from researchers of member central banks and monetary authorities. The manuscript was typed by Miss Karen How and Mrs. Haslina Muda. The views expressed in this volume

are those of the authors and do not necessarily reflect those of The SEACEN Centre or its member central banks and monetary authorities.

Dr. Vicente B. Valdepeñas, Jr.
Director
The SEACEN Centre

Kuala Lumpur, Malaysia
September 1993

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Part I

TRADE IN SERVICES IN THE SEACEN COUNTRIES

Part I
Chapter 1

TRADE IN SERVICES IN THE SEACEN COUNTRIES¹

Than Ye

Introduction

The world economy underwent rapid structural transformation during the past three decades. The services sector played an increasingly important role in this process. This is borne out in the fact that in most countries the services sector is now the largest economic sector as well as the most important source of jobs. In the developed countries, the services sector which accounted for 55 percent of GDP in 1970 increased to 63 percent in 1987; while in the developing countries, the services share in the GDP for the corresponding period moved up from 43 percent to 49 percent. As for the share of services in total employment, in many developed countries this is currently more than 60 percent. Comparative data for developing countries show a relatively slow growth though a rising trend is evident in most of these countries.

A trend similar to those taking place in both domestic production and employment has also become apparent in the international transactions in services. In the post-1980 period, trade in services has in general grown faster than merchandise trade, with varying individual country experience. In the most recent years, the growth of world trade in services - which includes transportation, travel, telecommunications, insurance, banking and other professional services - has increased faster than merchandise trade even though the services trade share in world merchandise trade is still less than one-fourth. In 1990, the annual increment in world trade in services was 17 percent compared to a

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1. The author wishes to thank Dr. Vicente B. Valdepeñas, Jr., the Director of the SEACEN Centre, for his invaluable comments and suggestions on this paper. Many thanks go to Dr. Bambang S. Wahyudi, Assistant Director (Research) for his guidance and encouragement. The author is also very much indebted to U Maung Maung, Deputy Executive Director (Retd.) of Central Bank of Myanmar, for his inspiration, encouragement and advice. Helpful technical discussions with the colleagues of The SEACEN Centre are also gratefully acknowledged. However, any remaining errors and/or omissions are my own responsibility.

fairly low annual change of 13 percent in world merchandise trade. In fact, trade in services, the once barely discussed economic activity in international meetings, has now moved into the limelight to become important enough to be recognised as one of the most contentious issues being negotiated in the GATT Uruguay Round trade negotiations.

The SEACEN countries have participated in these negotiations and expressed their stand on certain issues. In order that their interest may be better served in these negotiations, there will be a need to undertake a study of the trade in services in the SEACEN countries in various aspects. This study intends to do just that and provide a basis for a better understanding of the subject so that these countries may have a stronger information base and analytical support for the policy decisions that they are being called on to make.

Objectives of the Research Study

The basic objective of this research project is to study the various aspects of trade in services in the SEACEN countries, with a view to getting a better understanding of its role, the problems and policy measures undertaken to deal with these problems. In this regard, the increasing role of trade in services will be examined with respect to its contribution to domestic economy as well as to international trade. Using the econometric models of exports and imports of the various components of non-factor services, it will identify and make a systematic analysis of the major determinants of comparative advantage in trade in services. In addition, the study will undertake identification of problems and issues related to trade in services. The impact and effectiveness of policy measures undertaken to deal with the persistent deficits in the services account of balance of payments will also be examined. Finally, it will review current Uruguay Round negotiations on trade in services.

Scope and Organisation of the Study

The scope of this study will cover those areas of the SEACEN trade in services to enable us to get a picture that would throw light on the objectives outlined here. This study is a collaborative project of the member central banks and monetary authorities and The SEACEN Centre. Under this collaborative approach, the researchers of the member central banks and monetary authorities prepared the respective country

studies while The SEACEN Centre served as the co-ordinating agency and conducted an overall analysis based largely on these country studies. Bank Indonesia, the Bank of Korea, Bank Negara Malaysia, Nepal Rastra Bank, the Central Bank of the Philippines, the Monetary Authority of Singapore, the Central Bank of Sri Lanka and the Bank of Thailand participated in the project. Although Myanmar did not participate in the project, we collected the data from other official sources and tried to incorporate some findings in this study.

The study will be in two parts. The first part consists of chapter one and it will be an overview of the region's trade in services development while the second part will consist of the country papers of the eight member countries. The chapter one will be in five sections. The first section will be an overview of the development of trade in services in the SEACEN region and will include (I) definition of trade in services, (II) services in the domestic economy and external trade, and (III) a brief look at the determinants of comparative advantage and testing the applicability of the theory of comparative advantage to trade in services. The second section will trace the problems regarding trade in services being faced by the SEACEN countries, while the third section will dwell on the policies undertaken to deal with these problems. Section four will examine the current negotiations in the Uruguay Round on trade in services, with emphasis on those subjects relevant to the interest of the SEACEN countries. Section five will be a wrap-up of the study, highlighting its major findings.

Limitations of the Study

This study is not meant to be an exhaustive study of trade in services in the SEACEN countries. As a collaborative effort of the SEACEN member countries, the study will be limited to the extent of their contribution. The period of this study covers the 15 years from 1976 to 1990 and for purposes of inter-country comparison, the U.S. dollar is extensively used in the first part. Data for the study is drawn from country paper sources. Where data from these sources do not conform or fit into the desired format, we have used data from other sources.

It may be pointed out that the definition of trade in services in this study is confined to the non-factor services (commercial services) only, as was agreed at the workshop session on this subject, because data on factor services do not distinguish between income from goods-

related investment and services-related investment. If what we are interested in is trade in services, we have to define non-factor services as precisely as possible and then measure such trade as best we can. It is no solution to assemble a hotch-potch of earnings from international trade, investment and migration (Arndt, 1989). The non-inclusion of factor services in the definition will mean that the overall net balance of each member country's services trade account is bound to differ and in some cases, significantly enough to alter this account from a deficit to a surplus position. The negotiations of the Uruguay Round on services trade cover an extensive field and we shall concern ourselves only with those areas which are of interest to the SEACEN region.

Section 1

DEVELOPMENT OF TRADE IN SERVICES IN THE SEACEN COUNTRIES: AN OVERVIEW

I. Definition of Trade in Services

This study, in attempting to make a comparative study of the development of trade in services in the SEACEN countries, will need at the outset to decide on the definition of trade in services that may be used to make the comparison of data between the different SEACEN countries meaningful. There is no internationally agreed definition on what constitutes "traded services". Neither do we intend to indulge in arguing over the various characteristics of different definitions. In this study, the concept and definition employed are those recommended by the United Nations Statistical Office (UNSO) and the International Monetary Fund (IMF). According to these sources, international trade in services reflects transactions between resident and non-resident economic units.

The rationale for this decision reflects the distinction between the different components under tradable services into non-factor services (e.g., shipping, travel, other transports, other private services and other government services), and factor services (e.g., royalties, fees and investment incomes). When manufacturing firms sell some of their output abroad, there is trade. When they set up subsidiaries to produce output abroad, whether for domestic sale or for export, there is direct foreign investment, an outflow of capital, i.e., a factor movement. The profits of the subsidiary, whether distributed or not, represent factor income. So, international factor movements themselves are not trade because the determinants of trade differ from the determinants of factor movements (Arndt, 1989). Trade in services is defined as international transaction in services between resident producers and non-resident consumers, no matter where the transactions take place. Once trade in non-factor services is clearly differentiated from factor movement and earnings, the exports of non-factor services can be defined as that part of the output of services industry firms that is sold to non-residents. We may thus confine the definition of trade in services only to those components that would conform to the meaning of trade as interpreted under the theory of international trade. As such, we may equate trade

in services to include only those items under non-factor services. This would mean items in the balance of payments current account identified with invisibles minus investment incomes, minus unrequited transfers.

With the definition of trade in services thus interpreted, we may include the following under it:

- (1) Temporary Movement (TM) abroad of:
 - (a) people (tourists, diplomats, students, patients); and,
 - (b) goods (for repair maintenance, processing).
- (2) Transport-Transmission (TT) services, including:
 - (a) transport (shipping, air, rail, etc.) of passengers, freight;
 - (b) trading (direct, transshipment, entrepôt); and,
 - (c) telecommunications (postal, telephone, fax, etc.).
- (3) Transmitted Information (TI), including:
 - (a) financial (intermediation, etc.) services; and
 - (b) business (accounting, legal, consultancy, advertising, etc.) services.

For the purpose of this paper, the meaning of trade in services will conform to the above definition. According to the balance of payments classification, we can combine the above categories into following non-factor services items:

1. shipment,
2. other transportation,
3. travel,
4. other private services, and
5. other government services.

The definition of these items as used in this study are in conformity with the Balance of Payments Manual of the International Monetary Fund (IMF) (4th.ed., 1977) and can be summarised as follows.

1. Shipment

Shipment covers freight, insurance and other services involved in distributing merchandise. Freight refers mainly to the carriage or trans-

port of goods. The term also includes any ancillary services provided by carrier in conjunction with the service of transport. Insurance comprises insurance on movable goods during the course of shipment. Other distributive services performed during the course of shipment that are incidental to the shipment are covered under the other services.

2. Other Transportation

"Other transportation" covers services performed by carriers, chiefly the transport of passengers, that are not classified in "shipment" or "travel" together with goods and services acquired by carriers and consumed in their operations, mainly port services. In addition to the passenger services covered by fares, it include any other services for which passengers make expenditures on board carriers or for which they pay charge to carriers. Port services includes charters and miscellaneous other services related to transportation industry. The term "port services" includes the procurement of all goods and most services by carriers and similar equipment for consumption in their operations.

3. Travel

Travel covers goods and services acquired from a country by non-resident travelers during their stay in that country for their own use or give away. These goods and services may either be paid for by the traveler (or on his behalf) or be provided to him without a quid pro quo. It excludes international passenger services, which are included in "other transportation". A traveler is a person staying for less than one year in an economy of which he is not a resident. The term "traveler" includes tourists, business travelers, students and trainees, excursionists and other travelers.

4. Other Private Services

Other transportation includes three types of components: (a) labour income, not included elsewhere (n.i.e), (b) property income n.i.e., and (c) other goods and services. Labour income n.i.e. covers income that people(e.g., seasonal workers, border workers) earn working for a resident of a country other than the one in which they themselves reside. It does not include "immigrants' transfers" or "worker remittances" which emanate from persons who have become residents of the

country where they work by virtue of being expected to live there for a year or more, these constitute unrequited transfers. Property income n.i.e refers to non-financial property income that is not included elsewhere. The main element of this component is income accruing to the owners of patents, copyrights and similar non-financial intangible assets. Income of this sort often refers to such terms as royalties and license fees. All property income on financial assets is classified by the IMF as "investment income". Other goods and services covers all goods and services that are not specifically allocated to other items. Some main kinds are:

- non-merchandise insurance
- communications
- advertising
- brokerage
- management
- operational leasing, other than charters
- periodicals bought through subscriptions
- processing and repair
- merchanting
- professional and technical services.

5. Other Government Services

Other government services cover the receipts and expenditures on interofficial, military units, embassies and consulates, etc., for goods and services.

II. The Role of Services with Respect to its Contribution to the Domestic Economy as well as to International Trade

This paper studies the development of trade in services in the SEACEN countries for the period 1976-1990 to get a better understanding of a subject that has aroused intense interest in economic discussions.

To understand the role played by international transactions in services in the SEACEN region, it would be helpful - indeed essential - to begin by reviewing developments in the domestic economy. With this in mind, we shall first consider trends in the share of services sector in national production and employment, and then follow up with a more

detailed examination of international transactions in services. During 1976 and 1990, we may observe the expanding role of the services sector in the SEACEN region and also be aware of exceptions to this trend in Myanmar. In Myanmar, the role of the service sector has declined due to the faster growth of agriculture during the period under study (Table 1.1).

The SEACEN countries as group have shown that the services sector has contributed the biggest share (47 percent) to GDP, followed by the industrial sector (38 percent) and the agricultural sector (15 percent) in 1990. Even in the case of Myanmar and Nepal where the agricultural sector is the main sector in terms of contribution to the GDP, the services sector is the second largest sector. For the rest the services sector is either equal or greater than the industrial sector, with the agricultural sector shrinking relative to the GDP. In the case of Indonesia, Malaysia, Singapore and Thailand, the share of services sector in GDP slightly decreased in 1990 compared to 1985 which was mainly because of the reciprocal increment in industrial sector during the period. However, on average half of the GDP was contributed by the services sector in Singapore, Korea, Sri Lanka and Thailand, and this ratio was also sizable (30 - 43 percent) for the rest of the SEACEN countries in 1990. The average annual growth rate of GDP for the last 15 years has mirrored in part in most of the SEACEN countries the growth rate of the services sector. The average annual growth rate of the services sector was highest (10.4 percent) in the case of Singapore, whereas Myanmar and the Philippines recorded a comparatively low growth of 3 percent and 4 percent, respectively, for the period under study. (Table 1.2)

Another indicator of the important role being played by the services sector may be found in its share in total employment in the domestic economy. This share has, in general, increased over the years. It seems that as an economy develops, the role of the services sector as a provider of employment increases. (Table 1.3). As such, in 1990, the services sector was the most prominent sector in terms of providing employment. In that year the services sector's share in total employment was 47 percent in Korea, 46 percent in Malaysia and 62 percent in Singapore followed by a fairly increasing trend of this sector in the rest of the SEACEN countries where the services sector is developing next to the agriculture sector in providing more employment in the economy. In most of the SEACEN countries, the average annual growth rate of employment in the services sector has shown a substantial

Table 1.1

THE STRUCTURE OF GDP IN THE SEACEN COUNTRIES
(Percentage of GDP in Current Prices)

Country	Agriculture			Industry *			Services		
	1976	1985	1990	1976	1985	1990	1976	1985	1990
Indonesia	31.1	23.2	21.8	33.6	35.4	39.6	35.3	41.3	38.6
Korea	23.6	12.8	9.1	33.3	39.1	42.5	43.1	48.1	48.4
Malaysia **	27.8	20.8	18.6	32.1	35.1	40.1	40.2	44.1	41.2
Myanmar	46.6	48.2	59.2	11.3	12.6	10.3	42.1	39.2	30.5
Nepal	66.7	54.4	56.4	4.0	4.5	4.9	29.3	41.1	38.7
Philippines	27.8	24.6	21.9	34.1	35.0	35.1	38.1	40.4	43.0
Singapore	1.7	0.7	0.3	32.3	32.3	33.2	66.0	67.0	66.5
Sri Lanka	29.0	27.7	26.3	26.5	24.8	24.7	44.5	47.5	49.0
Thailand	26.7	16.7	12.4	26.5	31.7	36.8	46.8	51.6	50.7
SEACEN Group	27.4	18.7	15.0	31.2	34.9	38.4	41.3	46.5	46.6

* The industry sector comprises mining, manufacturing and construction.

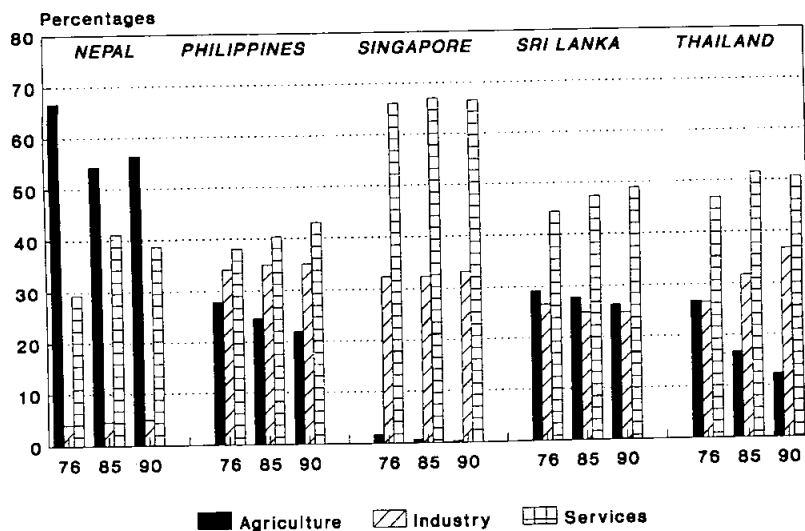
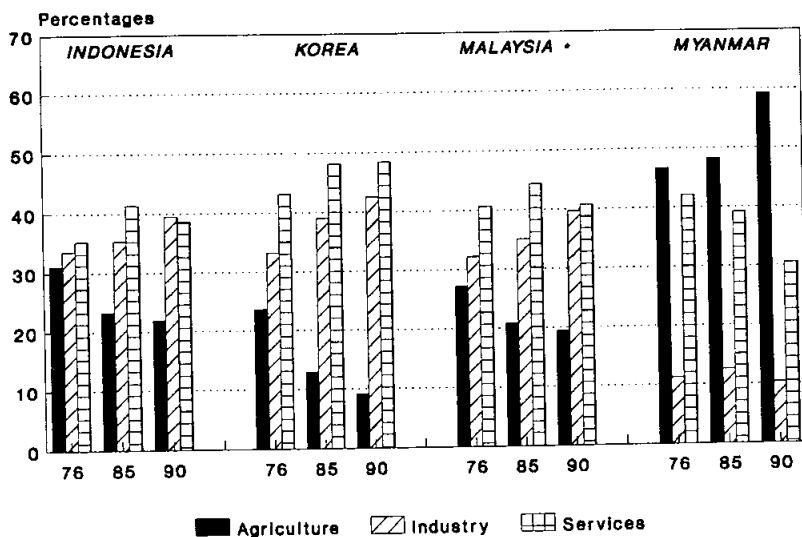
** At constant 1978 prices.

Sources: ADB, Key Indicators of Developing Asia and Pacific Countries, various issues for Myanmar.

Country sources for Indonesia, Korea, Malaysia, Nepal, Philippines, Singapore, Sri Lanka and Thailand.

CH 1.1 STRUCTURE OF GDP IN THE SEACEN COUNTRIES

(Percentage of GDP at current prices)



• At constant 1978 prices

Table 1.2**AVERAGE ANNUAL GROWTH RATE BY SECTOR
IN THE SEACEN COUNTRIES**

(At Constant Prices)

(Percent)

Country	Agriculture			Industry *			Services		
	1976-85	1986-90	1976-90	1976-85	1986-90	1976-90	1976-85	1986-90	1976-90
Indonesia	4.0	3.4	3.7	6.9	6.9	6.9	7.8	7.5	7.6
Korea	0.9	-1.1	0.6	10.8	11.4	11.3	7.5	10.4	8.6
Malaysia	3.2	3.4	3.1	7.7	10.0	7.7	7.7	6.2	6.2
Myanmar	5.9	-0.4	3.7	6.6	-0.5	3.5	5.2	-1.6	2.8
Nepal **	4.0	6.5	4.4	7.9	3.2	7.3	10.4	3.0	7.8
Philippines	2.3	2.5	2.4	0.6	5.7	2.2	2.7	5.5	3.6
Singapore	0.6	-4.9	-1.8	8.0	15.5	9.5	9.3	14.4	10.4
Sri Lanka	4.8	0.8	3.5	4.5	6.2	5.1	6.3	3.2	5.2
Thailand	4.3	3.6	3.8	6.5	15.5	9.1	7.5	11.2	8.4

* The industry sector comprises mining, manufacturing and construction.

** At current prices.

Sources: ADB, Key Indicators of Developing Asia and Pacific Countries, various issues for Myanmar.

Country sources for Indonesia, Korea, Malaysia, Nepal, Philippines, Singapore, Sri Lanka and Thailand.

CH 1.2 AVG.ANN.GROWTH RATE BY SECTOR IN THE SEACEN COUNTRIES

(At Constant Prices)

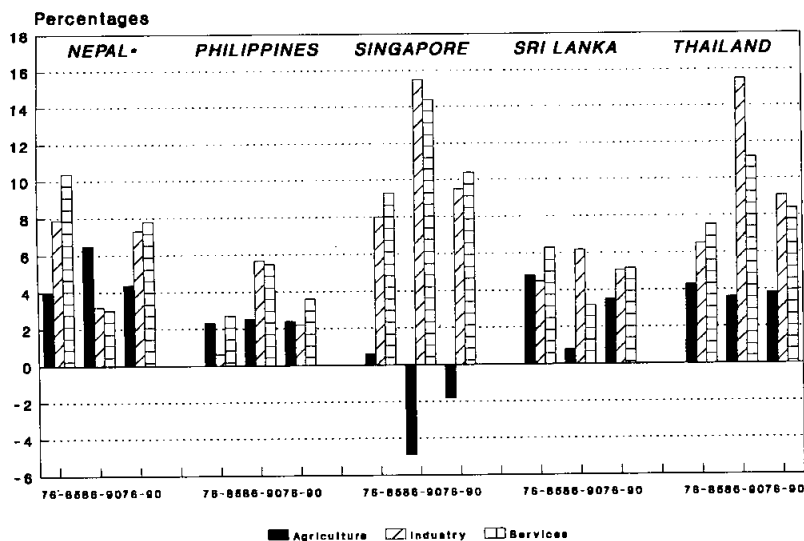
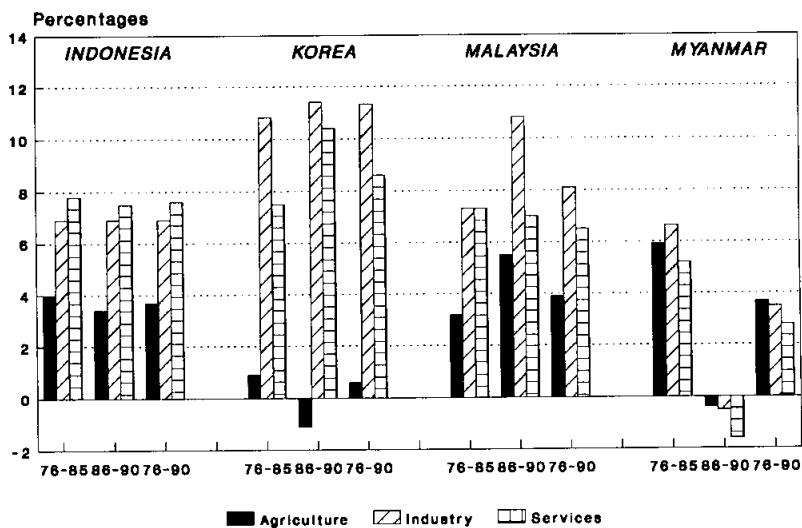


Table 1.3

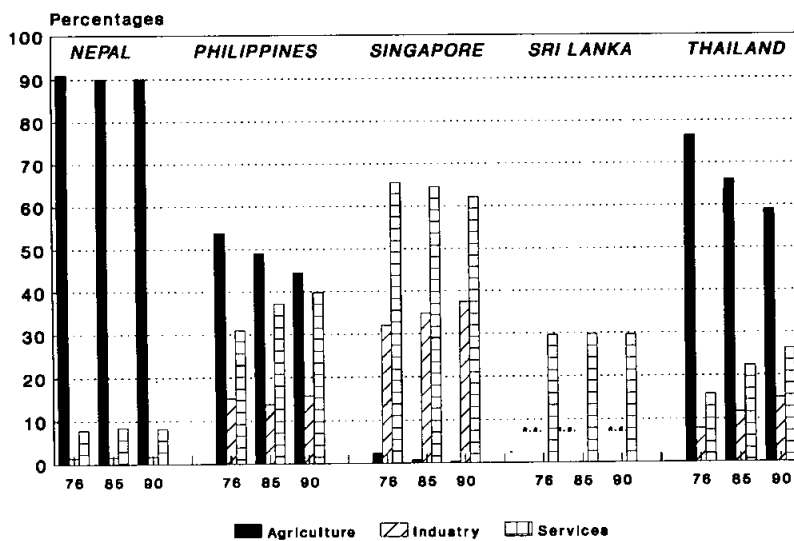
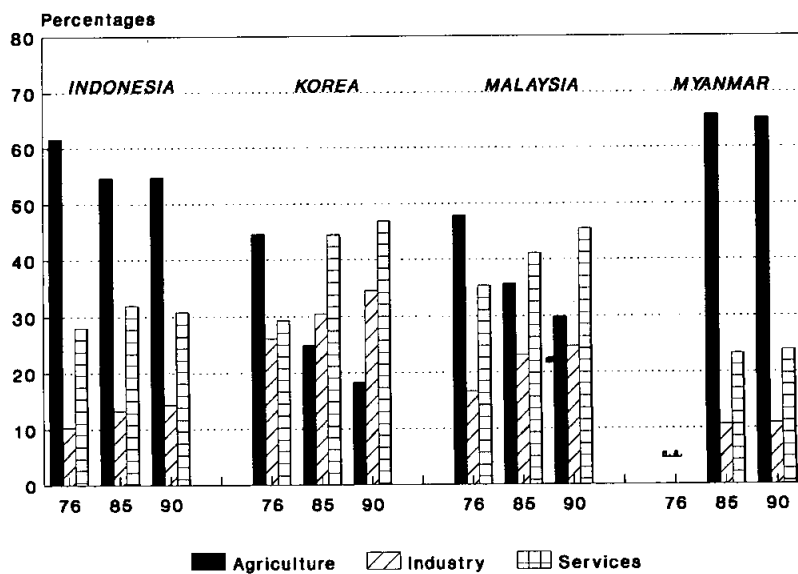
**SHARE OF EMPLOYMENT AND AVERAGE
ANNUAL GROWTH RATE BY SECTOR**
(Percentage)

Country	Agriculture				Industry				Services			
	Share of Employment			AAGR	Share of Employment			AAGR	Share of Employment			AAGR
	1976	1985	1990	1976-90	1976	1985	1990	1976-90	1976	1985	1990	1976-90
Indonesia	61.6	54.7	54.8	2.6	10.3	13.3	14.3	5.9	28.1	32.0	30.8	4.1
Korea	44.6	24.9	18.3	-3.7	26.1	30.5	34.7	4.8	29.3	44.5	47.0	6.1
Malaysia	44.0	31.3	27.8	-0.3	21.2	23.6	26.5	4.7	34.8	45.1	45.7	5.1
Myanmar	-	65.9	65.2	-	-	10.7	10.9	-	-	23.4	24.0	-
Nepal	90.9	90.0	90.1	3.1	1.4	1.6	1.7	4.8	7.8	8.4	8.2	3.6
Philippine	53.8	49.0	44.5	1.7	15.1	13.8	15.6	3.4	31.1	37.2	39.8	5.0
Singapore	2.3	0.7	0.4	-8.5	32.1	34.8	37.5	3.5	65.6	64.5	62.1	3.5
Sri Lanka	-	-	-	-	-	-	-	-	29.7	29.8	29.7	1.5
Thailand	76.5	66.0	58.9	1.1	7.8	11.6	14.8	7.8	15.6	22.4	26.3	6.9

AAGR = Average Annual Growth Rate

Source: Country sources.

CH 1.3 SHARE OF EMPLOYMENT BY SECTOR



increment (4 - 7 percent) during 1976 and 1990. It may be observed from the foregoing that there is a fair shifting of employment from the traditional to the services sector as the economies develop in the SEACEN region. After having thus seen the importance of the share of services sector in national production and employment, we may now examine the role of services in international transactions. (Table 1.4)

Indonesia has enjoyed a surplus in its overall balance of payments for the period under study, in the face of its deficits in its services account. Except for 1979 and 1980 when oil prices rose significantly, the current account has been in deficit, due mainly to the large deficit in the services account. From this, we may note the adverse effect that the services account has on Indonesia's external transactions. A glance at the net position of the various components of the trade in services account explains why Indonesia has the largest deficit in this account in the region. From 1976 to 1985, the net position of every component has been in the red and only from 1986 that the travel account has turned into a surplus and improved appreciably in the last five years, mainly as a result of increased receipts from tourism. The surplus from this single account has, however, proved incapable of offsetting the massive deficit from the 4 combined accounts. The main contributions to this deficit are the net payments under shipment and other private services. The large deficit under these items are due to the lack of supply and quality of domestic vessels engaged in international trade and the large amount of payments on other private services.

Korea enjoys a surplus in its trade in services account all throughout the period under study. The rate of increase in the services receipts has been accompanied by a steeper rate of increase in the services payments and as a result of services trade account has begun to show a declining surplus since 1988. In contrast to the Indonesia net services account which was dominated by deficits in most of the components, the opposite holds true of the Korean services account. The net other transportation account has been the only deficit component in the Korean account (except for four years in the shipment account, one year in the other private services and two years in the travel account) whereas all the other components registered net surpluses. In fact, Korea's services trade surplus in 1986, 1987 and 1988 exceeded that of Singapore. Apart from Sri Lanka, Korea is the other country in the SEACEN region which enjoys a surplus in the shipment account, whereas the rest of the SEACEN region countries suffer from net drainage under this account, in some cases on a massive scale.

Table 1.4
NET NON-FACTOR SERVICES IN THE SEACEN COUNTRIES
(Million U.S. Dollar)

Country	S h i p m e n t (freight & insurance)				Other Transportation				T r a v e l				Other Private Services				Government Services				T o t a l			
	1976	1980	1985	1990	1976	1980	1985	1990	1976	1980	1985	1990	1976	1980	1985	1990	1976	1980	1985	1990	1976	1980	1985	1990
Indonesia	-800.0	-1558.0	-1392.0	-2343.0	34.0	-262.0	-28.0	-351.0	-95.0	237.0	-28.0	1339.0	-633.0	-1294.0	-2842.0	-2213.0	-	-	-	-	-1584.0	-3351.0	-4290.0	-3568.0
Korea	-452.0	15.0	802.3	921.2	-115.1	-714.5	-588.0	-1668.3	228.8	19.7	178.4	393.1	292.1	1482.4	976.1	168.7	132.2	147.6	415.1	693.5	392.7	950.2	1783.9	506.4
Malaysia	-285.0	-818	-747.0	-1414.0	37.0	-25.0	26.0	-7.0	-59.0	-407.0	-537.0	188.0	-119.0	-346.0	-727.0	-525.0	14.0	-3.0	-12.0	-84.0	-121.0	-1399.0	-1097.0	-1842.0
Myanmar	-10.3*	-16.2*	-13.5*	-10.5*	-	-	-	-	2.7	5.3	6.9	15.3	10.3	3.6	-8.5	-58.2	-6.2	-2.1	0.3	4.4	-3.5	-9.4	14.8	-89.0
Nepal	-3.0	-6.0	-4.0	-16.0	0.0	1.0	0.0	-3.0	4.0	28.0	9.0	68.0	8.0	17.0	0.0	-1.0	9.0	21.0	56.0	31.0	18.0	61.0	61.0	79.0
Philippines	-280.0	-468.0	-173.0	-666.0	90.0	-86.0	-1.0	-97.0	65.0	214.0	-469.0	355.0	77.0	661.0	1389.0	2782.0	121.0	112.0	351.0	307.0	8.0	-435.0	2035.0	2681.0
Singapore	-330.7	-686.4	-825.7	-2116.0	1707.6	2700.7	2128.6	5640.7	337.5	1100.2	1047.1	2897.8	-	-	-	-	31.3	59.2	57.3	18.1	1745.7	3173.7	2407.3	6446.6
Sri Lanka	-0.8	-1.3	7.3	-4.1	15.1	11.3	-13.0	6.7	20.6	65.4	35.9	60.3	-3.1	2.4	-32.1	3.3	1.6	0.3	-5.6	-2.0	33.4	78.1	-7.5	72.4
Thailand	-331.7	-437.4	-732.9	-3116.6	29.4	16.7	1.0	550.9	5.4	623.6	890.0	2894.4	-15.6	325.4	827.0	589.8	79.7	87.5	70.0	-21.5	-232.8	215.8	1055.1	897.0

* Including other transportation services.
Including other private services.

Sources: Country sources.
Review of the Financial, Economic and Social Conditions, various issues for Myanmar

CHART 1.4 NET NON-FACTOR SERVICES IN THE SEACEN COUNTRIES
(Million U.S. Dollars)

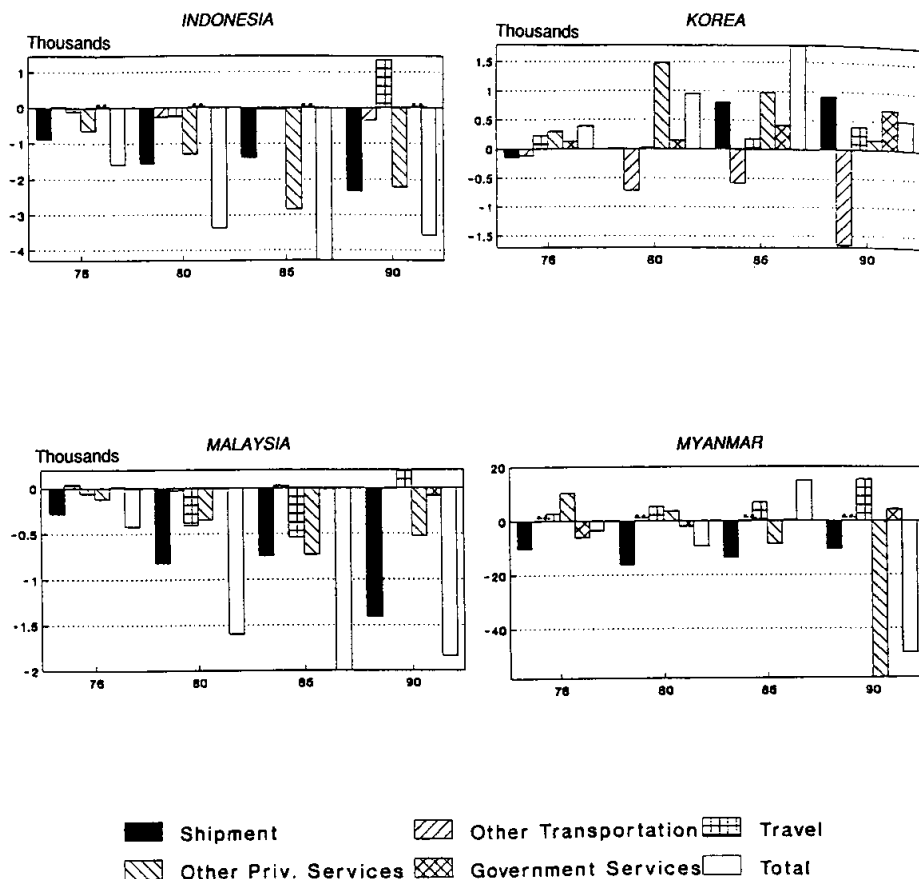
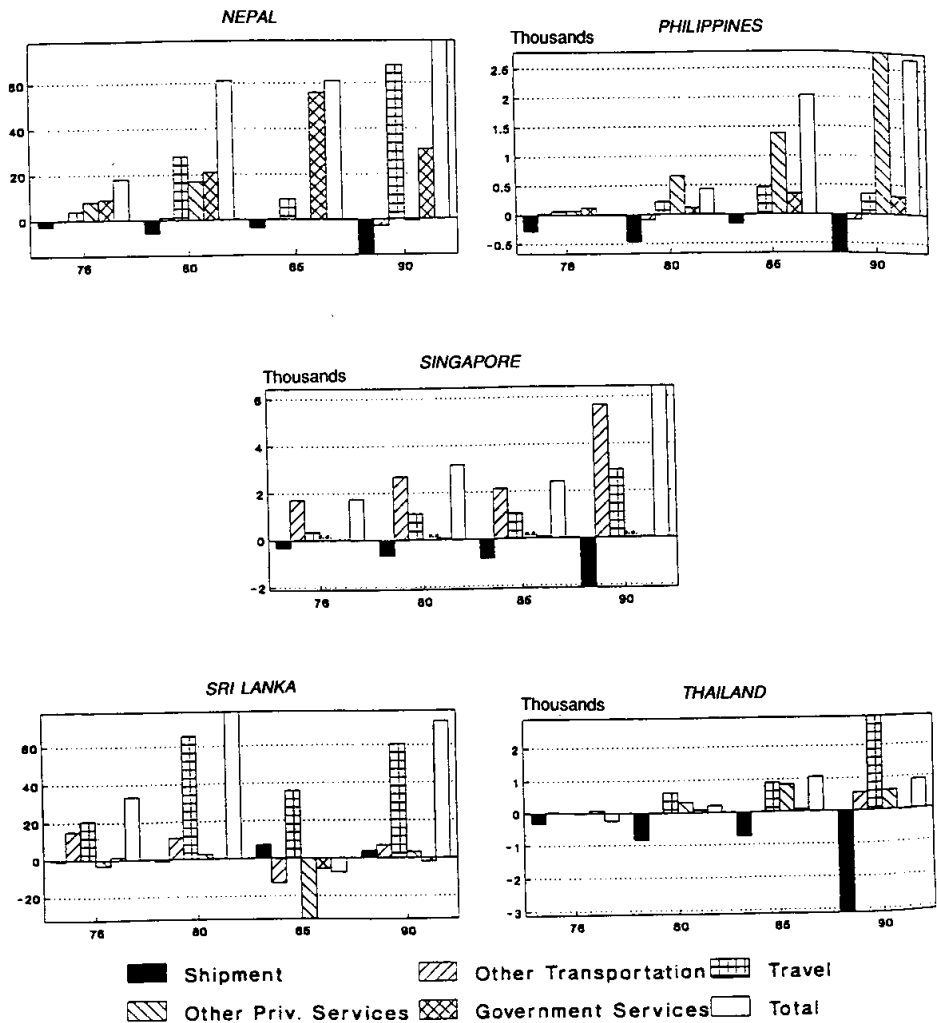


CHART 1.4 NET NON-FACTOR SERVICES IN THE SEACEN COUNTRIES (Cont'd)
(Million U.S. Dollars)



The services account in *Malaysia's* balance of payments has traditionally been in deficit, which has deteriorated at an increasing rate since the 1960s. The major components that have contributed significantly to the services deficits are the shipment, travel and other private services. The net outflow from shipment has always been the largest source of the services deficits. In terms of net payments, shipment accounted for 46 - 69 percent of the deficit before 1980, 33 - 56 percent between 1981-1989, and thereafter increased to 77 percent in 1990. In the early 1980s, limited services from Malaysian ships and air carriers, and heavy dependence on foreign shipping and insurance services resulted in the massive payments outflows. The net outflow of this account slowed down after 1982, with the increased carriage of goods by Malaysian ships. Despite the expansion programme to increase Malaysia cargo carriage capacity, the structural changes taking place in the Malaysian economy with the resulting tremendous increase in imports, particularly of capital goods, has meant a substantial increase in payments for shipment. The net outflow from this source was responsible for almost 77 percent of the trade in services deficit in 1990.

Other private services represents the second largest item of the non-factor services account deficit. Net outflows for this item peaked in 1984. The travel item has emerged as a major component in the services account. Between 1976 and 1985, the deficit under this item grew at an average annual rate of 28 percent. After 1985, the deficit dropped significantly and this account eventually turned into a surplus in 1990. This surplus contributed in reducing the overall deficit of the services account. Business and leisure travel and travel for education are the main components under the travel account. For most of the period, the business and leisure travel items have shown surpluses, whereas the education account has been in deficit as a result of increasing number of students seeking higher education abroad.

Myanmar's overall balance of services account has been in deficit most of the time with a surplus only during the years from 1986 to 1989. This was mainly due to the surplus in the other private services account during that period. Also, mainly due to the large deficit in the other private services account, the overall services account turned into deficit again in 1990. The dominant component on the receipt as well as payment side of the services account is the other private services which accounted for 73 percent and 83 percent of total receipts and payments respectively in 1990. The shipment account (including other

transportation) is the main deficit item. It is the combined outcome of these three main components, i.e., the shipment, the other government services and especially the other private services accounts that eventually decides the outcome of Myanmar trade in services account. The travel account has been in surplus throughout the period under study with an average annual growth rate of 13.2 percent. With measures underway to promote tourism, the travel account should be able to contribute more to the services trade account in due course. The trend of the development in this account in Myanmar conforms to the SEACEN region's pattern with respect to the deficit in the shipment account and the surplus in the travel account.

Nepal's trade in services account has been in surplus throughout the period under study. Trade in services is a vitally important item in Nepal's external account which may be judged from the fact that it accounts for 49.3 percent of total exports in 1990 and was as high as 65.1 percent in 1983. As a ratio of merchandise exports, trade services exports was 110.4 percent in 1990, and was over twice that of merchandise exports in 1983. The imports of trade in services are not, however, as significant as the exports. Component-wise, travel, other private services and other government services are the main contributors to Nepal's surplus in its trade in services account. Travel accounts for 54.7 percent of total receipts in 1990, while receipts from other private services and other government services were 24.4 percent and 18.9 percent respectively. In fact, receipt from other government services was as high as 45.7 percent of total receipts in 1984. Tourism stands out as a prominent item in the travel component of the services account. The amount of receipts from travel as a ratio of total receipts for merchandise trade also brings out the importance of tourism as an exchange earner. In 1990, this ratio was 60.4 percent and was as high as 74.4 percent in 1983. On the payments side, other private services is most prominent, accounting for 41 percent of total payments in 1990. Payments for freight, which has been adversely affecting most of the SEACEN countries, have also begun to make their presence felt in Nepal in the past few years. From as low as 2 percent of total payments in 1983, it has risen to 13.1 percent in 1990.

The *Philippines* trade in services account has been in surplus through the period under study. There has been a rising trend in the surplus for the last few years. The dominant component on the receipt side of this account is the other private services which accounted for 76

percent of total receipts in 1990. In contrast to the increasing receipts in this component, a declining trend has been noted in the receipts of all other components. The drop in the receipts from government services account in 1990 reflects in part the lower receipts from Economic Support Fund (ESF) from United States of America. On the payments side, the outflow from shipment and other privates services are most prominent. Together these two components account for 81 percent of total payments in 1990. Like most other SEACEN members, the drain for shipment payment is the largest payment item and was close to 50 percent of total payments in 1990. The receipts for trade in services as a ratio of merchandise trade receipts was as high as 54.3 percent in 1990 and is the second highest in the region, next to Nepal. This is an indication of the importance of services trade receipts in the total trade receipts.

Singapore's trade in services is an important account in its external transactions, as the surplus from this account has been responsible in turning the balance of payments current account from a deficit into a surplus in the last four years. The surplus achieved in the trade in services account is owed mainly to the receipts from other transportation and private services account which are about 60 percent of total services receipts in 1990. In this connection, it may be of interest to point out that Singapore ranks first among developing economy exporters of port services associated with the accommodation of container-shipping activities. To consolidate this position in port services, massive port expansion plans are underway.

Receipts from travel rank second as the main foreign exchange earner. Receipts from other transportation and private services increased by almost four-and-a-half times over the last 15 years, whereas travel receipts grew by nine times over the same period. The combined receipts from these two components are the main supports to Singapore's trade services surplus. At the same time, we should not ignore the fact that a natural-resources deficient country like Singapore, with a heavy dependence on imports and a small size shipping fleet, must naturally end up with a deficit in its shipment account. Payment for shipment has been the largest outflow item in the services account, accounting for 40.4 percent of total services payments in 1990. The overall services account balance surplus increased by 18 percent in 1987, 29 percent in 1988, 41 percent in 1989 and 45 percent in 1990. The shipment account balance deficit has grown for the past seven years. The

increase in the shipment deficit was 39 percent in 1990. Two of the main supporting components, travel and other transportation and private services, have shown steady increase over the few years, the surplus for travel was up by 47 percent in 1990, while the other transportation and private services went up by 43 percent in the same year.

Sri Lanka has enjoyed a surplus in the trade in services account throughout the period under study, except for 1985. The average annual growth rate of other transportation and other private services have increased markedly by 15 percent each during the past 15 years. On the receipts side, the other transportation as a ratio of total services receipts was 37 percent in 1990, while that of the share of other private services was 27 percent in the same year. The noticeable increase in the receipts for other transportation in 1990 appears to be due to increased handling of transshipment for which Colombo has become one of the major ports in the region. Despite the large share of these two items on the receipts side, their net contribution to the net balance in the overall services account was comparatively small. This is due to the fact that the payments for these two items were equally large, leaving only a small balance. It was the travel account which was mainly responsible for the trade in services surplus, with its 83 percent share in the net balance of the overall services account in 1990. This increase may be related to improved security conditions as well as to the tourism promotion efforts. The net balance of the travel account has been prominent throughout the last 15 years, and the net balance of this account has been closely related to the outcome of the total non-factor services account. Though the services account has been in surplus, both the value of receipts and payments under this account are comparatively small compared to the value of exports and imports of merchandise trade. In other words, the trade in services account has not been able to influence the outcome of the balance of payments current account as on average, the services receipts as a ratio of current account receipts come up to 13.2 percent, while the services payments as a ratio of current account payments amount to only 9 percent for the last 15 years. It is quite interesting to note that Sri Lanka happens to be the other member of the SEACEN to have a surplus in the shipment account, though it was in deficit up to 1982. The share of this component in the total receipts and payments of the services account is also significantly small.

Thailand's trade in services account, after undergoing deficits up to 1979, has begun to enjoy a surplus since then. Accounting for the

favourable balance in the services account are the surpluses from the travel, other transportation and other private services components. Receipts from travel have increased from 36.8 percent of the total services receipt in 1976 to 58.5 percent in 1990, whereas for the same period, the share of other transportation and other private services has improved from 10.4 percent to 11.8 percent and from 19.1 percent to 21.7 percent, respectively.

On the payments side, the item for concern would be the shipment account which expanded by about ten times in the 15 years and constituted 55.1 percent of total services payments in 1990. The second largest outflow may be traced to the travel account, whose share came up to 22 percent of total services payments. But it is consoling to note that the travel payments are well below one-third of travel receipts in 1990. The surplus recorded in Thailand's services account are, however, insufficient to cover the trade deficit. The outflow arising from shipment has increased quite significantly in the past few years, and the net payments under this account overwhelmed that of the net receipts from the travel account in 1990. The net receipts from the other transportation, travel and other private services accounts were responsible for the comfortable surplus in the services account in 1990. This surplus is, however, almost only half of the surplus in the preceding year. The threat from the shipment outflow in wiping out the services account surplus appears to be quite significant.

A brief survey of developments in the SEACEN region's services account brings out changes that deserve recounting. The overall deficit of the SEACEN group in this account which has been in deficit most of the time up to 1980 has eventually turned into a surplus in 1981, which is mainly due to the phenomenal increase in the services receipts of Singapore with its contribution to the overall surplus. Korea, a services account surplus country, becoming a member of this group, was also helpful in expanding the overall surplus. Two components with their opposing effects on the services account worth mentioning are the shipment and travel items. The shipment has been the sole deficit account among the four components of the SEACEN trade in services account, whereas the net receipts from travel services have been responsible in a big way in countering the net outflow from the shipment account. The other private services account has also contributed significantly towards producing an overall surplus in the region's trade in services account. Ratio-wise, we find that the drain from

shipment payments is highest in Malaysia, accounting for nearly 77 percent of the services deficit in 1990. Regarding the importance of receipts from travel, it may be seen in Nepal that the inflow from this source represented 55 percent of total services receipts in 1990. Other transportation item is also another important item in the services account with its effect varying from country to country. It was the main receipt item in Singapore's services account, constituting about 59 percent of total receipts in 1990, while in contrast it is the only component with a deficit balance in Korea's services account. In 1990, this deficit was more than three times that of the overall surplus of Korea's trade in services account; in other words, it was only the combined surplus of the remaining other components that have managed to offset this large deficit in the other transportation account. (Table 1.5)

The foregoing has given us some idea of the role of services in the domestic economy as well as in the external transactions of SEACEN countries. The picture which has emerged reveals the tremendous increase in the services activities in their international transactions, which has consolidated the growing important role of services trade in world trade and intensified the interest in it.

III. The Determinants of Comparative Advantage in Trade in Services

Comparative advantage may said to be the product of relative endowments in two elementary factors: capital and labour (with the possible addition of nature resources). Consequently, the international division of labour will reflect the relative capital - or labour - intensity of industries. However, comparative advantages are dynamic: they evolve with progress in development and technology. Thus, at any one time, comparative advantages are determined by endowments resulting from a previous round of accumulation and development pattern, as well as from their particular fit with new organisational and technological paradigms. Capital and labour are not monolithic, undifferentiated entities but are strongly influenced by institutional aspects. In particular, labour embodies skills and knowledge (the human capital factor) that may be highly differentiated and influenced by the existing technological and industrial environment. As for the information sector, it is seldom acknowledged (and is difficult to measure) although its role in services production is critical.

Table 1.5

**NON-FACTOR SERVICES
TRANSACTION IN THE SEACEN COUNTRIES**
(Million US Dollars at Current Prices)

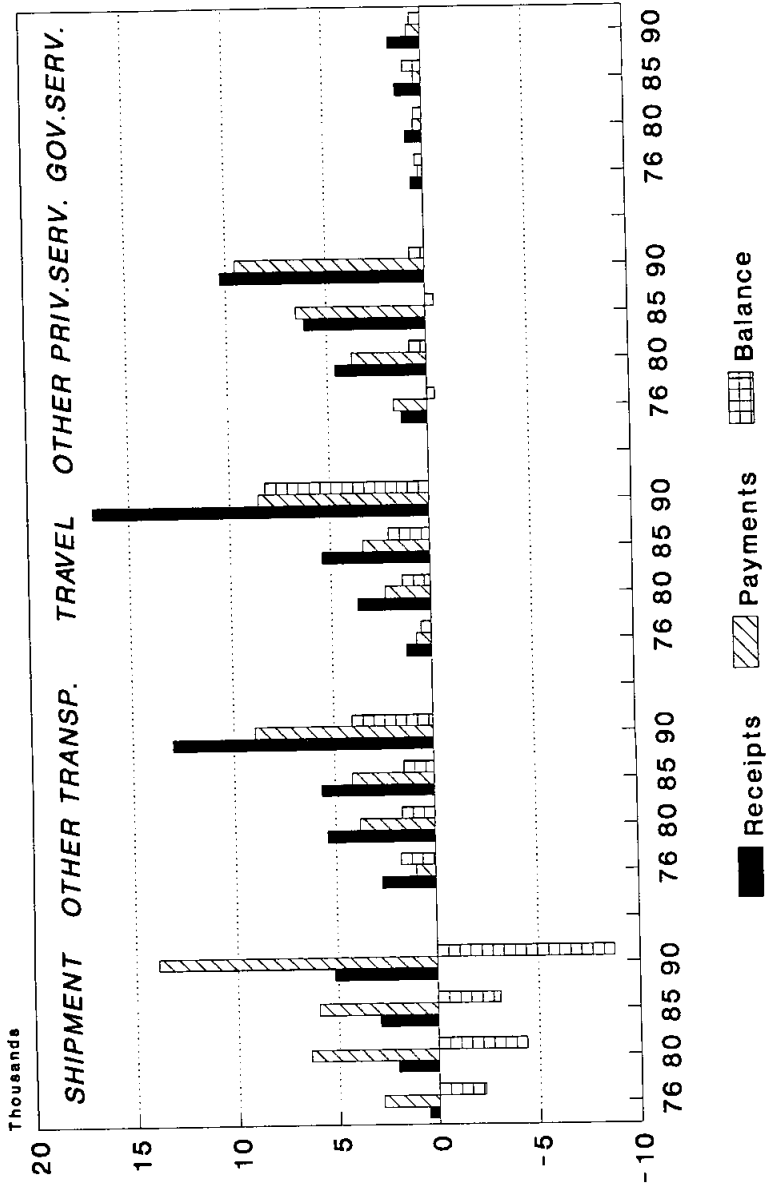
	1976	1980	1985	1990	AAGR 1976-1990
Shipment					
<i>Receipts</i>	492.6	2019.3	2883.6	5141.1	18.2
<i>Payments</i>	2784.1	6395.6	5962.1	13897.9	12.2
<i>Balance</i>	-2291.5	-4376.3	-3078.5	-8756.8	
Other Transportation					
<i>Receipts</i>	2713.9	5405.3	5652.9	12998.9	11.8
<i>Payments</i>	976.2	3763.1	4127.3	8926.9	17.1
<i>Balance</i>	1737.7	1642.2	1525.6	4072.0	
Travel					
<i>Receipts</i>	1262.2	3678.7	5427.2	16778.1	20.3
<i>Payments</i>	752.2	2266.5	3355.9	8567.2	19.0
<i>Balance</i>	510.0	1412.2	2071.3	8210.9	
Other Private Services					
<i>Receipts</i>	1312.9	4591.6	6099.5	10288.2	15.8
<i>Payments</i>	1689.2	3739.8	6517.0	9541.4	13.2
<i>Balance</i>	-376.3	851.8	-417.5	746.8	
Government Services					
<i>Receipts</i>	619.5	860.4	1332.7	1633.5	7.2
<i>Payments</i>	223.9	437.9	400.6	687.0	8.0
<i>Balance</i>	385.6	422.5	932.1	546.5	
Total					
<i>Receipts</i>	6401.1	16555.3	21395.9	46839.8	15.3
<i>Payments</i>	6435.6	16602.9	20362.9	41620.4	14.3
<i>Balance</i>	-34.5	-47.6	1033.0	5219.4	

AAGR = Average Annual Growth Rate

Source: Country sources.

CH 1.5 NON-FACTOR SERVICES TRANSACTION IN THE SEACEN REGION

(Million U.S. Dollars at current prices)



International trade does not occur in a competitive economic environment. Development of monopolies or oligopolies significantly alter the bases of the theory of international trade and of neo-classical comparative advantages. Thus, "natural" endowments do not adequately account for a number of comparative advantages. Man-made conditions and resources influence trade pattern to a greater extent. Among these, political and economic stability, existing infrastructure (of basic and complementary services), economies of scale and government intervention are crucial elements as they strongly affect investment decision, the development of skills, and the creation and diffusion of information. Beyond the traditional-factor endowment, the existence of a large domestic market, the accumulation of sectoral know-how and information as well as institutional (government) measures are likewise crucial to explaining trade in financial services.

Countries could be said to have a "revealed" comparative advantage in services trade if the share of services trade in their total (merchandise plus services) trade exceeds the share of services trade in world trade. In 1987, this was the case for the Philippines, Singapore, Korea (1984) and Thailand. Countries with relatively large amounts of unskilled labour will tend to export labour-intensive services as well as labour-intensive goods. Countries with relatively skilled labour will have a comparative advantage in exporting services that require relatively large inputs of such labour. Countries that have endowments of beautiful scenery will have a comparative advantage in the export of tourist services.

Scale economies appear particularly and a number of infrastructural services such as transportation, finance and communication, which require large capital outlays. Indeed, because of their economies of scale (and other considerations), sectors such as transportation or telecommunication have often been considered natural monopolies and in most countries, they are in fact a government monopoly. Skill and information empower a crucial comparative advantage in the majority of services. They are often "sector-specific" and gathered on the job. They thus give a comparative advantage to those advanced nations which have first developed such sectors (often for the domestic market) and have then been able to expand their business further with exports. Even in sectors such as shipping, where comparative advantages are traditionally identified with endowments in the capital factor, the accumulation of sectoral knowledge, specialised information and

"contacts" constitute, over time, a powerful competitive advantage. Greece and Norway have specialised in shipping far beyond their domestic demand, building on their accumulated sector-specific know-how and contacts to extend such services.

To explain contemporary comparative advantages thoroughly, one must consider "man-made" conditions and resources such as political and economic stability favourable for efficient performance, as well as a good infrastructure supplying basic and complementary services as may be seen in Hong Kong which had an advantage over Singapore in developing loan syndication because it had the necessary legal expertise but lost some of its comparative advantages in the 1980s partly because of political uncertainty. The competitiveness of services products is not solely a question of price, but rather quality and effectiveness. In the production and delivery of many consulting services, for example, technical know-how alone may not be enough. Other crucial elements are close knowledge of the local institutional and economic context as well as the capacity to adapt the service provided to the customers needs. These considerations have important consequences for the role of comparative advantages in the field of services.

In examining the services trade experiences of developing economies, physical capital appears to be directly related to comparative advantage in transportation services while human capital appears related to comparative advantage in insurance and other services (Sapir and Lutz 1981). Services with comparative advantage differ by industry. Tourism for example, may be heavily dependent on natural resource endowments. The general view is that, the theory of comparative advantage applies equally well to trade in services as it does to trade in goods. Though Singapore has built up a prominent role as an international financial centre and acquiring a comparative advantage in information and business services, we do not possess the necessary statistical data to test these propositions. We have, however, collected data to test the comparative advantage in trade in services in the SEACEN countries.

3.1 Econometric Estimates on Trade in Non-Factor Services

There have been few studies on the determinants of comparative advantage in trade in non-factor services. The main reasons for this

state of affairs are threefold. First, trade in services is largely intangible, that it is tied to the international flow of people, information, money and goods. Second, when economists speak about international trade they tend to think mostly in terms of trade in goods and seldom give much thought to trade in services. Finally, the lack of adequately detailed breakdown of data and the diversity of non-factor services -- they are heterogeneous collection of items, usually classified according to five categories: shipping, other transportation, travel, other private services and other government services -- have proved to be a formidable hindrance to our understanding of services trade.

In spite of these problems, one brave attempt has been made to break through this barrier by Andre Sapir and Ernst Lutz (1980, 1981) in a study for the World Bank. In this study in order to identify and make a systematic analysis of the major determinants of comparative advantage in trade in non-factor services, the econometric models of the imports and exports of the various components of non-factor services have been constructed on the basis of those developed by Sapir and Lutz and also on the availability of data provided by the member central banks. As an attempt to quantify the determinants of comparative advantage, the following simple econometric models are analysed. These econometric models are estimated by using the ordinary least squares (OLS) method and will serve as a rough guideline to an understanding of the determinants in the trade in non-factor services. The estimates are derived from annual data and the period covered in this study is from 1976 to 1990. The values of all the variables in the models are deflated by the unit value indices of exports and imports (1985=100) to eliminate the price effect so as to get more meaningful picture and a more reliable basis to analyse the determinants of the comparative advantage in trade in services. In the cases of Myanmar and Nepal, unit value indices of exports and imports are not available; GDP deflator (1985=100) of these countries is used instead. The real values of all the variables are in millions of U. S. dollars. The expected signs of the partial derivatives are indicated for each variable.

3.2 The Models

3.2.1 Shipment

The shipment item in the balance of payments contains three separate components: freight transportation, merchandise insurance and

other services. Given their related importance and in the interest of simplicity, the model centres on freight and insurances services. It is postulated that the real receipts from (real payments for) shipment depend very much on the real values of merchandise exports (imports) and also the size of the merchandise fleet registered in the country. However, most of the member central banks could not provide the data for the size of merchandise fleet registered in their countries. As common to all member countries, the following functions can be established.

$$\begin{aligned} RS(c) &= f (RX) \\ &+ \\ RS(d) &= f (RM) \\ &+ \end{aligned}$$

Where,

RS(c) = Shipment (freight and insurance), credit;
 RS(d) = Shipment (freight and insurance), debit;
 RX = Merchandise exports;
 RM = Merchandise imports.

3.2.2 Other Transportation Services

The other transportation services item in the balance of payments consists of two components: passenger fares and port services. But most of the member central banks could not furnish the required detailed breakdown of data and we could not build the separate models for passenger fares and port services. Thus, the model has been constructed on aggregate level. It is postulated that a country's real receipts from other transportation services depend upon the flow of incoming foreign passengers to it and the number and size of foreign carriers using its port facilities. A country's real receipts from travel and its real values of total trade in commodities (exports plus imports) are used as the proxies for the flow of incoming foreign passengers and the number and the size of foreign carriers using its port facilities. In the same function, it can be postulated that a country's real payments for other transportations services depend upon its real values of travel payments and total trade.

$$\begin{aligned} ROT(c) &= f [RT(c) , (RX+RM)] \\ &+ \\ ROT(d) &= f [RT(d) , (RX+RM)] \\ &+ \end{aligned}$$

Where,

- ROT(c) = Other transportation services, credit;
- ROT(d) = Other transportation services, debit;
- RT(c) = Travel, credit;
- RT(d) = Travel, debit;
- (RX+RM) = Merchandise exports plus imports.

3.2.3 Travel Services

A country's real receipts from travel services are postulated to be a function of weighted average real GDP of major tourist's countries and foreign exchange rate index of U.S. dollar per one unit of the country currency. (Most of the foreign incoming tourists' payments are made in local currency.) Similarly, that country's real payments for travel services are related to its per capita real GDP and foreign exchange rate index of the country currency per one unit of U.S. dollar. (The payments of outgoing national tourists have to be in foreign currencies particularly in U.S. dollar.) The assumption is that the larger a country's real GDP, the more travellers are inclined to spend on travel services.

$$\begin{aligned} RT(c) &= f (RWGDP , EXRL) \\ &\quad + \quad - \\ RT(d) &= f (PRGDP , EXRS) \\ &\quad + \quad - \end{aligned}$$

Where,

- RT(c) = Travel, credit;
- RT(d) = Travel, debit;
- RWGDP = Weighted average real GDP of major tourist's countries;
- PRGDP = Per capita real GDP;
- EXRL = Exchange rate index of U.S. dollar per one unit of the country currency;
- EXRS = Exchange rate index of the country currency per one unit of U.S. dollar.

3.2.4 Other Private Services

The other private services component of the balance of payments is a collection of items which mostly correspond to services defined in

terms of output. It is postulated that a country's real receipts from other private services depend upon its per capita real GDP, reflecting the fact that the higher per capita real GDP countries tend to produce proportionally more tradable services. On the other hand, a country's real payments for other private services will also depend upon its per capita real GDP, since higher per capita real GDP countries are likely to consume relatively more tradable services.

$$\text{ROP(c)} = f(\text{PRGDP})$$

$$\text{ROP(d)} = f(\text{PRGDP})$$

Where,

ROP(c) = Other private services, credit;

ROP(d) = Other private services, debit;

PRGDP = Per capita real GDP.

3.2.5 Other Government Services

It covers expenditures by official entities located abroad (embassies, military unit, etc.) for goods and services. This can hardly be expected to respond to strictly economic factors and it is considered to be exogenous.

3.3 Methodology

The econometric models of the real exports and imports of the various components of non-factor services are estimated by using the ordinary least squares (OLS) method so as to identify and systematically analyse the major determinants of comparative advantage in trade in non-factor services. Identification of the variables and specification of the models are based on theoretical judgment and the availability of data furnished by the member central banks. In order to simplify the interpretation of the regression results, all the equations are estimated using log-linear form.

3.3.1 Unit Root Test

Before testing for cointegration relationship within any set of variables, it is necessary to establish that they are integrated of the

same order. The order of integration is inferred by testing for the unit roots. Since all the variables are time series, the first step is to determine if the real values of variables are stationary in level, otherwise a first differencing is required to achieve stationarity. For this purpose, prior to regression analysis, a unit root test was carried out on every series to test for stationarity of the series. Because the regression equations that relate the nonstationary variables can give rise to the so-called spurious regression problem and lead to incorrect statistical inferences (*Granger and Newbold, 1974*), tests for unit root were performed on all of the components of exports and imports of non-factor services using the augmented Dickey-Fuller (ADF) tests. To satisfy the unit root test, the various options i.e., either constant and trend or constant or no component, were sequentially employed. The number of lags included in the tests were determined following Campbell and Perron (1991).

Because Dickey and Pantula (1988) argue that sequential differencing (starting with levels) until a series appears stationary can lead to erroneous results: we accordingly follow their suggestion and test 'down', starting with a test for one unit and if this is rejected, continuing on with a test for a zero unit root. If a series must be differenced d times before it becomes stationary, then it is said to be integrated of order d , denoted $I(d)$. The results of the unit root tests for the log level and log first-difference of the various components of exports and imports of non-factor services are summarised in Table 1.6-1.14.

3.3.2 Cointegration Test

Nonstationarity gives rise to several econometric problems. It can give rise to the possibility of a spurious relationship among the levels of economic variables. Also, the parameter estimates from a regression of one such variable on others are inconsistent unless the variables are cointegrated. The main contribution to the theory of cointegration by Engle and Granger (1987) is to provide a means of establishing whether a long-run relationship exists among economic variables even though each series may have a unit root since a linear combination of nonstationary series may turn out to be stationary (*Granger, 1986; Engle and Granger, 1987*). When this occurs the time paths of the individual variables are constrained to an equilibrium relationship and are said to be cointegrated. Cointegration is a very stringent test of the relationship between a set of variables. If the cointegration test fails, it does not

necessarily mean that there is no relationship among variables; it only suggests that there is no long-run linear relationship among them, and it may mean that other variables need to be added in order to establish the relationship.

Several tests for cointegration have been proposed in the literature. The test for cointegration used here is the one proposed in Engle and Granger (1987) and consists of two steps. The first test is to find out whether each variable in the said models is nonstationary. One does this by performing a unit root test on the variables. The second step tests for the presence of a unit root in the residuals of the levels regressions estimated using the nonstationary variables. If the residuals do not have a unit root, then the nonstationary variables are cointegrated. If there is no cointegration among variables, the regression is spurious and standard t and F tests on the estimated coefficient are meaningless. Granger and Newbold (1974) proposed a rule of thumb for detecting spurious regression. It states that, in an estimated regression, an R^2 higher than the Durbin-Watson statistic should be viewed as a warning of spurious relationship.

For our regression analysis here, we have taken the following steps to test the log real values of the various components of exports and imports of non-factor services which are included in the models, as to whether they are cointegrated or not. *First*, the order of integration is checked by applying unit root test to the individual variable. If the variables are integrated of order zero, i.e. $I(0)$, we do not apply the cointegration test and take a linear combination of these level variables. *Second*, if the variables are integrated of order one, i.e. $I(1)$, we test for cointegration between variables. If the variables are cointegrated with each other, we take a linear combination of these level variables; and if they are not cointegrated, the regression is estimated in first-difference form. *Third*, if the variables which are integrated of different orders then these variables cannot possible be cointegrated. Therefore, in that case, we take a linear combination of these variables at the highest order of integration of the variables. *Fourth*, if the variable(s) of a model are not free from unit root in their both level and first difference form, we drop the variable(s) which has unit root, from the model. *Fifth*, if all of the variables in a model are not free from unit root in their both level and first difference form, test for cointegration among these variables is conducted. Because cointegration deals with the relationship among group of variables, where

Table 1.6

UNIT ROOT TEST RESULTS

INDONESIA

No. of Lags	Natural Log							Log in First Difference			
	Ln RT(c) 0	Ln RT(d) 3	Ln RM 4	Ln (RX+RM) 4	Ln RWGDP 1	Ln PRGDP 0	Ln EXRL 0	Δ Ln RS(d) 1	Δ Ln ROT(c) 1	Δ Ln EXRS 0	Δ Ln ROP(d) 0
Constant, Trend ($\alpha \neq 0$, $\beta \neq 0$)	-3.693*	-8.436***		-3.777*							
Constant, No Trend ($\alpha \neq 0$, $\beta = 0$)			-3.291**	-3.829**	-3.556**				-3.168**	-3.781**	-3.272**
No Constant, No Trend ($\alpha = 0$, $\beta = 0$)						-2.321**	-3.707***	-2.296**			

Notes:

* Significant at 10 per cent.

** Significant at 5 per cent.

*** Significant at 1 per cent.

RSC(c) and ROP(c) data are not available.

Table 1.7

UNIT ROOT TEST RESULTS

KOREA

No. of Lags	Natural Log				Log in First Difference									
	Ln RS(d)	Ln ROT(d)	Ln EXRS	Ln EXRS	$\Delta \ln RS(c)$	$\Delta \ln ROT(c)$	$\Delta \ln RT(c)$	$\Delta \ln ROP(c)$	$\Delta \ln ROP(d)$	$\Delta \ln EX$	$\Delta \ln RM$	$\Delta \ln (EX-RM)$	$\Delta \ln RWGDP$	$\Delta \ln EXRL$
	4	4	3	3	0	0	0	1	0	0	2	0	2	23
Constant, Trend ($\alpha \neq 0$, $\beta \neq 0$)	-4.780**									-4.575**			-5.370***	-4.302**
Constant, No Trend ($\alpha \neq 0$, $\beta = 0$)	-2.850*	-3.416**					-2.984*	-6.031***	-3.259**					
No Constant, No Trend ($\alpha = 0$, $\beta = 0$)					-1.709*	-1.709*	-1.736*			-1.947*		-2.107**	-2.369**	

Notes:

* Significant at 10 per cent.

** Significant at 5 per cent.

*** Significant at 1 per cent.

Table 1.8

UNIT ROOT TEST RESULTS

MALAYSIA

No. of Lags	Natural Log										Log in First Difference			
	Ln ROT(c) 1	Ln RT(c) 1	Ln ROT(d) 1	Ln RT(d) 0	Ln ROP(d) 2	Ln RM 1	Ln EXRL 0	Ln EXRS 0	Ln PRGDP 0	Δ Ln RS(c) 0	Δ Ln RS(d) 1	Δ Ln ROP(c) 0	Δ Ln RX 1	
Constant, Trend ($\alpha \neq 0$, $\beta \neq 0$)	-4.627**	-3.557*	-3.374*			-4.125**	-4.092**	-4.092**						
Constant, No Trend ($\alpha \neq 0$, $\beta = 0$)				-3.741**	-2.860*				-3.021*	-3.551**		-2.768*	-3.477**	
No Constant, No Trend ($\alpha = 0$, $\beta = 0$)											-1.635*			

Notes:

* Significant at 10 per cent.

** Significant at 5 per cent.

*** Significant at 1 per cent.

Ln (RX+RM) is not free from unit root in both log level and log in first difference.

RWGDP data is not available.

Table 1.9

UNIT ROOT TEST RESULTS

MYANMAR

No. of Lags	Natural Log				Log in First Difference							
	Ln RT(c) 1	Ln ROP(d) 0	Ln EXRL 4		$\Delta \ln RS(c)1/$ 0	$\Delta \ln RS(d)1/$ 1	$\Delta \ln RT(d)$ 0	$\Delta \ln ROP(c)$ 0	$\Delta \ln RX$ 0	$\Delta \ln RM$ 0	$\Delta \ln PRGDP$ 1	$\Delta \ln EXRS$ 0
Constant, Trend ($\alpha \neq 0, \beta \neq 0$)	-4.245**											
Constant, No Trend ($\alpha \neq 0, \beta = 0$)		-7.343***	-3.278**		-3.752**	-3.676**	-2.922*	-4.450***	-3.585**	-2.729**	-3.705**	
No Constant, No Trend ($\alpha = 0, \beta = 0$)												-1.829*

Notes:

* Significant at 10 per cent.

** Significant at 5 per cent.

*** Significant at 1 per cent.

RWGDP data is not available.

1/ Including other transportation services.

Table 1.10

UNIT ROOT TEST RESULTS

NEPAL

No. of Lags	Natural Log						Log in First Difference				
	Ln ROT(d) 1	Ln RT(c) 2	Ln RT(d) 0	Ln ROP(d) 0	Ln RM 0	Ln (RX+RM) 4	Ln EXRL 0	Δ Ln RS(d) 0	Δ Ln ROT(c) 0	Δ Ln ROP(c) 2	Δ Ln PRGDP 0
Constant, Trend ($\alpha \neq 0, \beta \neq 0$)						-3.760*			-5.220***		
Constant, No Trend ($\alpha \neq 0, \beta = 0$)	-2.813*	-3.364**	-2.734*	-3.450**	-2.906*					-2.810*	-3.254**
No Constant, No Trend ($\alpha = 0, \beta = 0$)							-3.709***	-2.720**			

Notes:

* Significant at 10 per cent.

** Significant at 5 per cent.

*** Significant at 1 per cent.

Ln EXRS is not free from unit root in both log level and log in first difference.

RS(c) and RWGDP data are not available.

Table 1.11

UNIT ROOT TEST RESULTS

PHILIPPINES

No. of Lags	Natural Log					Log in First Difference								
	Ln ROP(c) 1	Ln EXRL 0	Ln EXMS 0	Ln RWGDP 3	Ln PRGDP 0	Δ Ln ROP(c) 0	Δ Ln BS(c) 0	Δ Ln ROT(c) 0	Δ Ln RT(c) 1	Δ Ln RT(d) 0	Δ Ln ROP(d) 1	Δ Ln RX 3	Δ Ln RM 0	Δ Ln ROT(d) 0
Constant, Trend ($\alpha \neq 0$, $\beta \neq 0$)				-4.613**										
Constant, No Trend ($\alpha \neq 0$, $\beta = 0$)	-2.875*					-3.549**		-4.191***	-3.772**	-2.904*	-2.846*			
No Constant, No Trend ($\alpha = 0$, $\beta = 0$)		-2.776***	-2.722**		-2.114**	-2.282*	-2.298**					-1.943*	-1.815*	-1.859*

Notes:

* Significant at 10 per cent.

** Significant at 5 per cent.

*** Significant at 1 per cent.

Table 1.12
UNIT ROOT TEST RESULTS
SINGAPORE

No. of Lags	Natural Log				Log in First Difference	
	Ln RS(d) 2	Ln ROT(c) 1	Ln RM 2	Ln EXRS 0	$\Delta \ln \text{ROT}(d)1/0$	$\Delta \ln \text{RT}(d)4$ $\Delta \ln \text{RWGDP}4$
Constant, Trend ($\alpha \neq 0$, $\beta \neq 0$)	-4.564**	-3.848*	-3.884**		-7.958***	-5.876***
Constant, No Trend ($\alpha \neq 0$, $\beta = 0$)					-2.902*	
No Constant, No Trend ($\alpha = 0$, $\beta = 0$)				-2.661**		

Notes:

- * Significant at 10 per cent.
- ** Significant at 5 per cent.
- *** Significant at 1 per cent.
- Ln RS(c), LnRT(c), Ln RX, Ln(RX+RM), Ln EXRL, and Ln PRGDP are not free from unit root in both log level and log in first difference.
- 1/ Including other private services.

Table 1.13
UNIT ROOT TEST RESULTS
SRI LANKA

No. of Lags	Natural Log											Log in First Difference		
	Ln RS(c) 3	Ln RS(d) 4	Ln ROT(c) 1	Ln RT(d) 0	Ln ROP(c) 2	Ln RX 0	Ln RM 4	Ln (RX+RM) 0	Ln EXRL 0	Ln EXRS 0	Ln PRGDP 0	Δ Ln ROT(d) 0	Δ Ln RT(c) 0	Δ Ln ROP(d) 0
Constant, Trend ($\alpha \neq 0$, $\beta \neq 0$)			-7.810***	-8.724***			-6.432***	-4.149**	-9.519***	-9.519***	-4.215**			
Constant, No Trend ($\alpha \neq 0$, $\beta = 0$)	-3.388**	-2.878*			-5.583**	-3.695**								-3.227**
No Constant, No Trend ($\alpha = 0$, $\beta = 0$)												-2.313**	-2.431**	

Notes:

- * Significant at 10 per cent.
 - ** Significant at 5 per cent.
 - *** Significant at 1 per cent.
- Ln RWGDP is not free from unit root in both log level and log in first difference.

Table 1.14

UNIT ROOT TEST RESULTS

THAILAND

No. of Lags	Natural Log	Log in First Difference									
		$\Delta \ln ROP(c)$ 0	$\Delta \ln RS(c)$ 0	$\Delta \ln RS(d)$ 0	$\Delta \ln ROT(c)$ 0	$\Delta \ln ROT(d)$ 0	$\Delta \ln RT(c)$ 0	$\Delta \ln RM$ 0	$\Delta \ln RX$ 0	$\Delta \ln EXRL$ 0	$\Delta \ln EXRS$ 0
Constant, Trend ($\alpha \neq 0$, $\beta \neq 0$)											
Constant, No Trend ($\alpha \neq 0$, $\beta = 0$)	-5.371***	-2.800*			-3.282**		-4.689***		2.773*	-3.276**	-3.276**
No Constant, No Trend ($\alpha = 0$, $\beta = 0$)			-1.846*		-2.955*		-2.013**				-1.987*

Notes:

* Significant at 10 per cent.

** Significant at 5 per cent.

*** Significant at 1 per cent.

Ln RT(d), Ln ROP(d), and Ln (RX+RM) are not free from unit root in both log level and log in first difference. RWGDP data is not available.

(unconditionally) each has a unit root. If there is cointegration among variables, we take a linear combination of these level variables; and if they are not cointegrated with each other, we do not run the regression.

For the above-mentioned cointegration tests, we employed cointegration regression including either constant or constant and trend. The number of lags included in the cointegration tests were also determined following Campbell and Perron (1991). The cointegration test results are summarised in Table 1.15.

3.4 Empirical Results for the Models of Non-Factor Services

Tests for unit root are performed on univariate time series. In contrast, cointegration deals with the relationship among a group of variables, where each has either a unit root or a set of variables are integrated at same order. According to the unit root test and cointegration test results, the regressions are estimated using the ordinary least squares method. If the variables are cointegrated with each other under the trend option, time trend is introduced as an explanatory variable into the regression equations. The Cochrane-Orcutt procedure was also applied wherever necessary to correct for serial correlation. However, in some cases, the Cochrane-Orcutt procedure cannot help correct the serial correlation. Although the models are selected on the basis of the goodness of the fit and significance level of the overall test statistics, results are included in the regression analysis if the selected variables are integrated at zero-order or if they are at least cointegrated with each other even if they are not statistically significant. The results estimated by the MicroTSP (Version 7.0) programme are summarised in Table 1.16-1.23.

The log real shipment receipts and log real exports are integrated at first-order, i.e. $I(1)$ in most of the SEACEN countries, namely Korea, Malaysia, Myanmar, the Philippines and Thailand. While in the case of Sri Lanka, these variables are integrated at zero-order, i.e. $I(0)$. But all the non-stationary series show stationarity after they have been differenced one time. Thus, except in the case of Sri Lanka, the cointegration test has been performed for all the SEACEN countries. If they are cointegrated, we run the regressions in log real level form; and if they are not cointegrated, we take a linear combination of these two series in first-difference form. (see Table 1.16). According to the

Table 1.15

COINTEGRATION TEST RESULTS

	Ln RS(c), Ln RX	Ln RS(d), Ln RM	Ln ROT(c), Ln RT(c), Ln (RX+RM)	Ln ROT(d), Ln RT(d), Ln (RX+RM)	Ln RT(c), Ln RWGDP, Ln EXRL	Ln RT(d), Ln RGDP, Ln EXRS	Ln ROP(c), Ln PRGDP	Ln ROP(d), Ln PRGDP
1. Indonesia	-	X	X	I(0)	I(0)	X	-	X
2. Korea	-3.686* (C,2)	X	I(1)	X	-4.587** (C,1)	X	-4.774** (T,0)	-3.799* (C,0)
3. Malaysia	I(1)	X	I(0)	I(0)	I(0)	I(0)	X	I(0)
4. Myanmar	-5.548* (T,0)	-6.427*** (T,1)	-	-	(1,0)	-4.382* (C,0)	X	I(0)
5. Nepal	-	X	X	I(0)	(1,0)	I(0)	-3.482* (C,2)	I(0)
6. Philippines	-4.859*** (C,0)	I(1)	-4.607** (C,1)	-4.413** (C,0)	X	X	I(0)	X
7. Singapore	X	I(0)	X	I(1)	X	X	-	-
8. Sri Lanka	I(0)	I(0)	X	X	X	I(0)	I(0)	X
9. Thailand	-5.175 (T,1)	-4.137* (T,0)	I(1)	X	I(1)	X	X	X

Notes:

* Significant at 10 percent.

** Significant at 5 percent.

*** Significant at 1 percent.

I(0) Each variable is integrated at zero order.

I(1) Each variable is integrated at first-order and they are not cointegrated.

Symbol in parentheses denote the level of option and number of lagged differences, where T = Constant and Trend.

C = Constant term in the regression.

- Data are not available.

X Variables are integrated at different orders.

regression results, the real receipts on shipment is significantly explained by real merchandise exports and all the estimated coefficients have the expected signs in all the SEACEN countries. Only in the case of Thailand, the coefficient of the real merchandise exports is statistically significant with the wrong sign. This may be due to the Thai shipping industry being limited by old and small-sized Thai freighters which cannot meet the demand for shipping. In the case of Singapore, two variables are not free from unit root and they are not cointegrated with each other either. Thus, there is no other option except to drop the model in the case of Singapore. In sum, the specified model is found to be significant from the point of view of major statistical tests.

Both log real payments on shipment and log real merchandise imports are stationary in Singapore and Sri Lanka, while these two series are integrated at first-order, i.e. $I(1)$, in Myanmar, the Philippines, and Thailand; and, integrated at different orders in the rest of the SEACEN countries. In that case, the cointegration test can be performed only for the countries where both series are integrated at first-order. Based on the unit root and cointegration test results, regression runs are done. (see Table 1.17). According to the regression results, the coefficients of the real merchandise imports are highly significant and two variables are highly correlated with each other in all the SEACEN countries except in Nepal. In the case of Nepal, the coefficient of the real merchandise imports is significant only at 10 per cent with the wrong sign and two series are not correlated with each other. This may be due to the fact that majority of import volume is supplied from India by road transportation. On the whole, except in Nepal, the regression results are surprisingly good: all of the estimated coefficients have the expected signs, they are statistically significant at 1 per cent level, and the average value of the explanatory power of the regression is 0.84.

Other transportation services is a combination of port services and passengers fares. Lacking item-wise data, the function is estimated on aggregate level. The log real receipts on other transportation services, travel and total trade are integrated at first-order in Korea and the Philippines, whereas these variables are integrated at different-orders in Indonesia and Sri Lanka. In the cases of Malaysia and Thailand, log real total trade does not pass the unit root test and we drop this variable from the model for these countries. The rest of the variables of the model are integrated at zero-order in Malaysia and first-order in Thailand. In the case of Singapore, all the regressors are not free from

Table 1.16**SHIPMENT (RECEIPTS)**

$$\text{LnRS(c)} = f(\text{LnRX})$$

(+)

	Dependent Variable	Constant	LnRX	LnRX	Trend	R ²	F	D.W.
1. Korea #	LnRS(c)	4.608 (2.58)**	0.273 (1.63)*			0.93	69.68	1.34
2. Malaysia#	LnRS(c)	-0.115 (-0.93)		2.266 (3.64)***		0.51	5.25	2.08
3. Myanmar	LnRS(c)	-7.710 (-3.20)***	1.750 (4.17)***		-0.075 (-3.45)***	0.61	9.30	2.77
4. Philip- pines	LnRS(c)	-1.311 (-0.76)	0.715 (3.71)***			0.51	13.80	1.75
5. Sri Lanka#	LnRS(c)	-5.747 (-0.98)	1.086 (1.29)			0.57	7.24	1.19
6. Thailand#	LnRS(c)	9.835 (14.60)***	-0.611 (-7.52)***		0.142 (19.13)***	0.99	571.70	2.30

Notes:

* Significant at 10 percent.

** Significant at 5 percent.

*** Significant at 1 percent.

Estimated regression equation with Cochrane-Orcutt procedure.

Figures in parentheses are 't' values.

For Indonesia and Nepal - Data are not available.

For Singapore - Two variables do not pass the Unit Root Test and they are not cointegrated with each other.

Table 1.17

SHIPMENT (PAYMENTS)

$\text{LnRS(d)} = f(\text{LnRM})$

(+)

	Dependent Variable	Constant	LnRM	ΔLnRM	Trend	R ²	F	D.W.
1. Indonesia	$\Delta\text{LnRS(d)}$	-0.017 (-1.03)		1.045 (8.81)***		0.87	77.70	1.42
2. Korea	$\Delta\text{LnRS(d)}$	-0.057 (-0.90)		1.137 (3.11)***		0.45	9.65	2.16
3. Malaysia	$\Delta\text{LnRS(d)}$	-0.014 (-0.88)		1.027 (8.98)***		0.87	80.64	1.86
4. Myanmar	LnRS(d)	-1.493 (-1.29)	0.796 (4.53)***		-0.086 (-4.91)***	0.86	36.99	1.65
5. Nepal	$\Delta\text{LnRS(d)}$	0.081 (0.60)		-2.146 (-1.51)*		0.16	2.27	1.59
6. Philip- pines	$\Delta\text{LnRS(d)}$	-0.014 (-0.59)		1.124 (11.77)***		0.92	138.42	2.29
7. Singapore#	LnRS(d)	-4.411 (-6.58)***	1.155 (17.66)***			0.99	437.57	1.83
8. Sri Lanka#	LnRS(d)	-8.856 (-3.32)***	1.365 (3.91)***			0.80	22.08	1.85
9. Thailand	LnRS(d)	-1.365 (-6.61)***	0.919 (39.24)***		0.005 (2.92)***	0.99	2140.78	2.07

Notes:

- * Significant at 10 percent.
 - ** Significant at 5 percent.
 - *** Significant at 1 percent.
 - # Estimated regression equation with Cochrane-Orcutt procedure.
- Figures in parentheses are 't' values.

unit root and the regression model cannot be applied. According to the unit root test and cointegration test results, the regression equations have been estimated. (see Table 1.18). Based on the regression results, the estimated coefficients of the real receipts on travel and real total trade are statistically significant and also their explanatory powers of the regressions are high in the cases of Malaysia, the Philippines and Sri Lanka. In the cases of Indonesia and Korea, even though the estimated coefficients of the dependent variables are statistically significant at 5 per cent level of significance, the relationships between dependent variable and independent variables are very low. And then, the variable, receipts on travel, has a negative sign contrary to the expectations. This seems due to the fact that inbound tourists used foreign airlines rather than airlines of Indonesia and Korea. In the cases of Nepal and Thailand, not only estimated coefficients of the independent variables are statistically insignificant; there are also no relationships between dependent and independent variables.

A country's real payments on other transportation services is expected to be positively influenced by the real payments on travel and its real total trade. In most of the SEACEN countries, these variables are integrated at different orders except in the cases of Indonesia and Nepal where these variables show stationarity. In the cases of Malaysia and Singapore, real total trade does not pass the unit root test and the remaining variables are integrated at zero-order in the former and at first-order in the latter. In the case of Thailand, all the regressors show non-stationarity and the model cannot be conducted. Based on the unit root and cointegration test results, the regression estimations have been done. According to the regression results shown in Table 1.19, real payments on other transportation services can be significantly explained by real payments on travel and real total trade in the cases of Indonesia and the Philippines. In the case of Malaysia, real payments on travel can significantly explain the real payments on other transportation services, but not in the case of Singapore. In the cases of Nepal and Sri Lanka, even though the estimated coefficients of the real payments on travel and real total trade are statistically significant, their explanatory power for the regressions is low. On the whole, the real other transportation services receipts and payments models are generally consistent and significant.

The real receipts on travel for a country depends upon the inflow of foreigners as well as exchange rate of that country with the U.S.

Table 1.18

OTHER TRANSPORTATION (RECEIPTS)

$$\text{LnROT(c)} = f[\text{LnRT(c)}, \text{Ln(RX+RM)}]$$

(+)

	Dependent Variable	Constant	LnRT(c)	Ln (RX+RM)	ΔLnRT(c)	ΔLn (RX+RM)	R ²	F	D.W.
1. Indonesia#	LnROT(c)	1.602 (1.09)			-6.007 (-1.82)*	10.48 (2.51)**	0.36	1.32	1.72
2. Korea	LnROT(c)	0.064 (1.32)			-4.486 (-2.27)**	0.802 (2.04)**	0.35	2.96	2.12
3. Malaysia#	LnROT(c)	2.430 (5.77)***	0.588 (9.02)***				0.97	173.74	1.69
4. Nepal	LnROT(c)	-0.068 (-0.64)			0.135 (0.30)	1.103 (0.94)	0.09	0.55	2.04
5. Philip- pines #	LnROT(c)	-11.376 (2.08)**	0.293 (0.72)	1.419 (2.34)**			0.83	16.27	1.56
6. Sri Lanka	LnROT(c)	0.158 (2.59)**			0.338 (1.51)*	2.277 (4.24)***	0.75	16.90	2.06
7. Thailand	LnROT(c)	0.114 (0.78)			0.202 (0.31)		0.01	0.10	2.16

Notes:

* Significant at 10 percent.

** Significant at 5 percent.

*** Significant at 1 percent.

Estimated regression equation with Cochrane-Orcutt procedure.

Figures in parentheses are 't' values.

For Myanmar - Data are not available.

For Singapore - LnRT(c) and Ln(RX+RM) do not pass the Unit Root Test.

Table 1.19

OTHER TRANSPORTATION (PAYMENTS)

$$\text{LnROT}(d) = f[\text{LnRT}(d), \text{Ln}(\text{RX}+\text{RM})]$$

(+)

	Dependent Variable	Constant	LnRT(d)	Ln (RX+RM)	ΔLnRT(d)	ΔLn (RX+RM)	Trend	R ²	F	D.W.
1. Indonesia	LnROT(d)	-2.543 (-1.71)*	0.464 (3.81)***	0.491 (3.71)***				0.74	17.49	1.50
2. Korea	ΔLnROT(d)	0.035 (0.73)			0.169 (1.28)	0.459 (1.18)		0.41	3.79	1.46
3. Malaysia#	LnROT(d)	-0.255 (-0.15)	0.930 (3.89)***					0.92	59.83	1.42
4. Nepal	LnROT(d)	15.631 (-2.30)**	-0.585 (-0.767)	3.111 (2.66)***				0.37	3.59	1.29
5. Philip- pines	LnROT(d)	-11.490 (-4.13)***	0.166 (0.99)	1.624 (4.65)***				0.91	57.35	1.61
6. Singapore*	ΔLnROT(d)	0.111 (2.46)**			0.148 (0.72)			0.14	0.79	2.26
7. Sri Lanka	ΔLnROT(d)	0.077 (1.59)*			0.196 (1.75)*	0.788 (1.75)*		0.26	1.95	1.77

Notes:

* Significant at 10 percent.

** Significant at 5 percent.

*** Significant at 1 percent.

Estimated regression equation with Cochrane-Orcutt procedure.

Figures in parentheses are 't' values.

For Myanmar - Data are not available.

For Thailand - Independent variables have unit roots.

dollar. Plainly speaking, tourism is the best source of travel receipts in most of the SEACEN countries. In such a situation, if the weighted average real GDP of major tourist's countries is increased it helps the tourist inflow in the countries. In addition, it is a general consensus that if the exchange rate of the visiting country is lower or cheaper the more tourists are inclined to travel to that country. The weighted average real GDP of the major tourist's countries data for Malaysia, Myanmar, Nepal and Thailand are not available and we cannot introduce this variable into the models for these countries. Each of the variables of the real travel receipts model are stationary in Indonesia, Malaysia, Myanmar and Nepal, whereas these variables are integrated at first-order in Korea and Thailand. In the case of Sri Lanka, these variables are integrated at different orders. The real receipts on travel model cannot be applied for Singapore as the dependent variable and exchange rate variable are not free from unit root. Based on the unit root and cointegration test results, the experimental regression runs are done. (see Table 1.20). According to the regression results, there is no relationship between the real receipts on travel and the exchange rate index of the country currency per one unit of U.S. dollar in the cases of Sri Lanka and Thailand, whereas these two variables are highly correlated even though the coefficients of the exchange rates are not statistically significant in the cases of Malaysia, Myanmar and Nepal. In the cases of Indonesia and the Philippines, though the real receipts on travel can be significantly explained by both weighted average real GDP and exchange rate, the weighted average real GDP variable has a negative sign, contrary to expectations. This seems due to the fact that rich countries are the world's major travel spenders and the travellers from that countries might be less inclined to go to developing countries and more inclined to seek comfort at the developed countries.

We also assume that real payments on travel depends upon the per capita real GDP and exchange rate index of the country currency per one unit of U.S. dollar. Most of the said selected variables for each country are integrated at different orders except Malaysia and Sri Lanka where these variables show stationarity. In the case of Myanmar, these variables are integrated at first-order. The exchange rate index and per capita real GDP do not pass the unit root test in Nepal and Singapore, respectively, and we have to drop these variables from the real payments on travel model of the respective countries to improve the performance of the model. In the case of Thailand, the dependent variable, real payments on travel, itself does not pass the unit root test and therefore the function cannot be estimated. In accordance with the

Table 1.20

TRAVEL (RECEIPTS)

$$\text{LnRT}(c) = f(\text{LnRWGDP}, \text{LnEXRL})$$

(+) (-)

	Dependent Variable	Constant	LnRWGDP	LnEXRL	ΔLn RWGDP	ΔLn EXRL	R ²	F	D.W.
1. Indonesia#	LnRT(c)	25.652 (2.83)***	-1.047 (-1.53)*	-1.077 (-7.21)***			0.95	45.85	2.15
2. Korea#	LnRT(c)	-28.797 (-5.30)***	2.408 (6.11)***	0.232 (0.30)			0.96	79.62	1.56
3. Malaysia#	LnRT(c)	35.353 (0.11)		-1.563 (-1.08)			0.94	81.62	1.69
4. Myanmar#	LnRT(c)	-6.124 (-0.16)		0.886 (0.97)			0.84	29.14	1.63
5. Nepal#	LnRT(c)	3.033 (1.73)*		0.252 (0.66)			0.47	4.95	1.40
6. Philip- pines	ΔLnRT(c)	0.236 (1.85)**			-1.667 (-0.87)	1.767 (2.54)**	0.40	3.63	1.86
7. Sri Lanka#	ΔLnRT(c)	0.079 (0.58)				0.674 (1.37)*	0.19	1.14	1.46
8. Thailand	ΔLnRT(c)	0.197 (4.60)***				1.399 (1.49)*	0.16	2.22	2.57

Notes:

* Significant at 10 percent.

** Significant at 5 percent.

*** Significant at 1 percent.

Estimated regression equation with Cochrane-Orcutt procedure.

Figures in parentheses are 't' values.

For Singapore - Dependent variable and independent variable (LnEXRL) have unit roots.

unit root and cointegration test results, the regression equations are estimated. (see Table 1.21). According to the regression results, it can be found out that there is no relationship between real payments on travel and the regressors in the cases of Indonesia, Nepal, Singapore and Sri Lanka. In the cases of Korea, Malaysia, Myanmar and the Philippines, though real payments on travel can be significantly explained by the independent variables, the variable per capita real GDP has a negative sign contrary to expectations except in Myanmar. On the whole, the regression results for real receipts and payments on travel services are not satisfactory according to the various test results and direction of relationships between dependent variable and some of the independent variables.

It is postulated that real other private services receipts and payments depend upon per capita real GDP. On the receipts side, real other private services receipts and per capita real GDP show stationarity in the Philippines and Sri Lanka, whereas the said variables are integrated at different orders in the rest of the SEACEN countries. Thus, in these cases, going by the econometric theory of cointegration, testing for cointegration relationship within the set of variables does not seem necessary for all the SEACEN countries. On the payments side, real other private services and per capita real GDP are integrated at zero-order in Malaysia and Myanmar and first-order in Korea while these two variables are integrated at different orders in the rest of the SEACEN countries. In the case of Thailand, the dependent variable itself is not free from unit root test and the regression equation cannot possibly be estimated. Based on the unit root and cointegration test results, the estimated regression equations for real other private services receipts and payments are shown in Table 1.22 and 1.23 respectively.

According to the regression results, real other private services receipts can be significantly explained by the per capita real GDP in the cases of Korea, Nepal and the Philippines, whereas per capita real GDP has no influence on real other private services receipts in the rest of the SEACEN countries. Also on the payments side, the coefficients of the per capita real GDP are statistically significant and the explanatory power of the regressions is high only in the cases of Korea, Malaysia and the Philippines, whereas there is no significant relationship between real other private services payments and per capita real GDP in the cases of the rest of the SEACEN countries. On the whole, we can draw a conclusion that per capita real GDP has no influence on real other private services receipts and payments in most of the SEACEN countries.

Table 1.21

TRAVEL (PAYMENTS)

$$\text{LnRT(d)} = f(\text{LnPRGDP}, \text{LnEXRS})$$

(+) (-)

	Dependent Variable	Constant	LnPRGDP	LnEXRS	ΔLn PRGDP	ΔLn EXRS	Trend	R ²	F	D.W.
1. Indonesia	▲LnRT(d)	0.087 (0.47)			2.272 (0.72)	0.922 (0.28)		0.24	1.72	2.07
2. Korea *	▲LnRT(d)	0.457 (2.00)**			-2.407 (-0.90)	-6.748 (-1.85)**		0.68	6.41	2.07
3. Malaysia*	LnRT(d)	-21.499 (-1.51)*	-0.544 (-0.61)	-1.962 (-1.28)				0.99	99.74	2.62
4. Myanmar	LnRT(d)	-26.258 (-6.42)***	2.771 (5.44)***	2.931 (6.26)***				0.80	23.46	2.28
5. Nepal	LnRT(d)	2.663 (3.57)***	0.135 (0.92)**					0.06	0.84	1.58
6. Philip- pines	▲LnRT(d)	0.469 (1.83)**			-0.338 (-0.06)	-6.085 (-0.86)		0.57	7.17	2.55
7. Singapore*	▲LnRT(d)	0.159 (2.37)**				-0.548 (-0.47)		0.23	1.46	1.82
8. Sri Lanka	LnRT(d)	-4.545 (-0.24)	0.596 (0.33)	1.069 (0.64)				0.37	3.58	1.30

Notes:

- * Significant at 10 percent.
 - ** Significant at 5 percent.
 - *** Significant at 1 percent.
 - # Estimated regression equation with Cochrane-Orcutt procedure.
- Figures in parentheses are 't' values.
For Thailand - Dependent variable has unit root.

Table 1.22

OTHER PRIVATE SERVICES (RECEIPTS)

$$\text{LnROP}(c) = f(\text{LnPRGDP})$$

(+)

	Dependent Variable	Constant	LnPRGDP	ΔLn PRGDP	Trend	R ²	F	D.W.
1. Korea #	LnROP(c)	-3.470 (-2.03)*	0.665 (2.93)***		-0.067 (-4.32)***	0.76	10.61	2.10
2. Malaysia #	ΔLnROP(c)	0.205 (2.60)**		-0.514 (-0.43)		0.02	0.11	1.87
3. Myanmar	ΔLnROP(c)	0.144 (1.28)		1.804 (0.96)		0.07	0.93	2.18
4. Nepal	LnROP(c)	-0.288 (-0.32)	0.827 (4.65)***			0.81	23.40	1.50
5. Philippines#	LnROP(c)	1.190 (0.46)	1.250 (3.18)***			0.59	7.79	2.28
6. Sri Lanka*	LnROP(c)	-3.732 (-1.17)	1.452 (2.53)**			0.44	4.36	1.45
7. Thailand #	ΔLnROP(c)	0.099 (0.95)		0.306 (0.52)		0.40	3.36	2.40

Notes:

- * Significant at 10 percent.
 - ** Significant at 5 percent.
 - *** Significant at 1 percent.
 - # Estimated regression equation with Cochrane-Orcutt procedure.
- Figures in parentheses are 't'-values.
For Indonesia and Singapore - Data are not available.

Table 1.23**OTHER PRIVATE SERVICES (PAYMENTS)**

$$\text{LnROP(d)} = f(\text{LnPRGDP})$$

(+)

	Dependent Variable	Constant	LnPRGDP	$\Delta \text{Ln PRGDP}$	Trend	R ²	F	D.W.
1. Indonesia	$\Delta \text{LnROP(d)}$	0.011 (0.12)		0.575 (0.87)		0.06	0.77	1.93
2. Korea	LnROP(d)	-3.697 (-1.88)**	1.428 (5.76)***			0.72	33.20	1.58
3. Malaysia #	LnROP(d)	-7.449 (-0.77)	1.900 (1.50)*			0.84	28.05	2.65
4. Myanmar #	LnROP(d)	-14.399 (-0.69)	3.318 (0.83)			0.32	2.61	1.91
5. Nepal	LnROP(d)	-3.673 (-1.26)	1.276 (2.43)**		0.086 (2.70)***	0.38	3.75	2.03
6. Philippines	$\Delta \text{LnROP(d)}$	0.059 (1.37)		1.463 (5.75)***		0.73	33.02	1.54
7. Sri Lanka	$\Delta \text{LnROP(d)}$	-0.018 (-0.18)		0.387 (0.61)		0.03	0.37	2.02

Notes:

* Significant at 10 percent.

** Significant at 5 percent.

*** Significant at 1 percent.

Estimated regression equation with Cochrane-Orcutt procedure.

Figures in parentheses are 't' values.

For Singapore - Data are not available.

For Thailand - Dependent variable has unit root.

Section 2

IDENTIFICATION OF CURRENT PROBLEMS AND ISSUES IN TRADE IN SERVICES

The current problems and issues in trade in services in the SEACEN countries will be examined in relation to the available data, in light of the balance of payments developments and in the context of the Uruguay Round negotiations on trade in services. This examination winds up with an overall comment.

Interest in services statistics is only recent and significant unresolved statistical problems remain. Data on services trade are much less comprehensive and reliable than data on merchandise trade. Long experience with merchandise trade statistics has resulted in internationally agreed nomenclatures offering substantial product detail and reasonably comprehensive procedures for collecting statistics. In the absence of an internationally agreed definition, data comparison of trade in services must be done so with caution, as the composition of the categories of services activities could vary across countries and prove meaningless for comparison purposes.

In collecting data for trade in services, we will notice that for merchandise trade customs data capture all cross-border movements of merchandise, including exchanges involving parents and affiliates of multinational corporations where no exchange of money takes place. In the case of trade in services, there is no equivalent for customs data, as for the most part services transactions are not registered at the border because the exchanges are physically unobservable. The advancement of technology, especially in communication, has facilitated trade, and created new forms of transactions in services. These transactions are for the most part not captured by existing data-collecting techniques as services transmitted electronically are frequently unreported, especially when the transactions are between affiliates and parent multinational firms. More generally, capturing affiliate-parent trade is very difficult, as often there will be no associated payment flow.

Some countries do not report statistics on specific items, such as Indonesia for maritime transport of freight. Volume estimates for traded services are virtually unavailable (the same is true of services statistics by origin and destination). Most of the services, particularly those

grouped under "other private services", do not get recorded at national borders or customs.

The main problem faced by the SEACEN countries in their international transactions in services for the period under study may be seen as follows.

Indonesia with its ever continuously increasing deficit in the trade in services account on a net basis, the largest deficit among the SEACEN members, undoubtedly has a problem on hand. This is due in a large part to the deficits in the "other private services" account as well as to the outflow for shipment and other transportation. The reason for such developments may be traced to the tough competition provided by foreign companies, lack of supply and quality of domestic vessels engaged in international trade and lack of adequate domestic services for international transportation equipments. Though tourism exists as a potential source of foreign exchange inflow, insufficient hotels, roads, modes of transportation and stiff competition from neighbouring countries in attracting tourists are proving as constraints to the full development of this sector.

The problem faced by Korea is that of a declining trend in its trade in services surplus. After peaking in 1988, the steep decline in the surplus for this account, unless checked, will be some cause for concern. Higher shipment and insurance payments coupled with expansion of overseas travel payments were mainly responsible for this development. The problem, therefore, will be to apply efforts at stemming the increase in these accounts.

Malaysia has the second highest deficit in trade in services in the SEACEN region. This problem of substantial deficits may be traced to the freight and insurance sectors (which accounted for 75 percent of the deficit in 1990), where the domestic industries were unable to cope with the expansion in Malaysian external trade. The unsatisfactory progress in the shipping industry and the lack of expertise among local insurance firms resulted in the heavy reliance on external sources, with the resulting outflow of funds that contributed to the deficit in the trade in services account.

Myanmar has just initiated transforming its economy into a market-oriented one, and the potentials of promoting tourism need to be exploited to enhance the trade in services account.

Nepal has been enjoying a surplus in the services trade, but it is not without problems. The problems relate to the need for long-term planning for the advancement of the services sector which has much growth potential. There is need for sufficient budget allocation to support infrastructure development such as the construction of hotels and expansion of transport facilities.

Though the *Philippines* has a surplus in the services trade account, it suffers from a deficit in the shipment and other transportation accounts. The problem here will be to address the shortcomings in the infrastructural developments so to reduce the payments under these accounts.

Ironically enough, *Singapore* despite its surplus in the trade services account, has problems of its own. Labour constraints with the accompanying wage and rental increases have led to the deterioration in international competitiveness as seen in the tourist sector. Though Singapore has a liberal regime in trade in services, it has encountered protectionistic measures in various areas such as aviation and financial services. Singapore is thus faced with the problem of regaining its competitive edge in the tourist industry and seeking ways to dismantle the barriers against it in the aviation and financial services.

The trade in services surplus enjoyed by *Sri Lanka* is due mainly to the performance of the travel account. It may be seen that the net position of the travel account peaked in 1982 and slowly declined continuously until it turned into a deficit in 1988. In 1989, it turned around to a small surplus, followed by a massive increase in 1990. The fate of this account is very closely correlated to security conditions in the country. The problem faced by Sri Lanka is to maintain its surplus in the trade in services which is very dependent on its travel account. This in turn is hinged to the tourist industry. The problem, therefore, will be to continue the promotion of the tourist industry by upgrading it and also maintaining security conditions to attract tourists. Another problem to be attended to will be to further increase the surplus in the trade in services account, so as to reduce the deficit in the merchandise account. To this end, the development of port services must continue unabated.

Thailand's problem arises from its two main contrasting components, the travel account with its surplus and the shipment

account with its increasing deficit. The overall surplus has begun to be eroded, due largely to the poor performance of the Thai shipping industry being unable to cope with the increasing demand. The travel account with its massive receipts have so far managed to stave off the threat from the shipment outflow. But if this trend were to continue without a corresponding increase in travel receipts, Thailand will be going back to its pre-1983 period of deficits in the trade in services account. In other words, the efforts at promoting tourism should not be relaxed, and ways sought to correct the imbalance in the shipment account.

The problems relating to the Uruguay Round negotiations on trade in services in essence concern the liberalisation of services. The responses of the some SEACEN countries, like other developing countries to the liberalisation in services would vary, reflecting differences in their comparative advantage in trade in services and the relative services sector shares in their economies. For instance, Singapore and Thailand are the most enthusiastic about liberalisation, whereas Indonesia and Malaysia with their deficits in trade services are less so.

We may examine some of the issues involved in negotiations on services trade by taking a brief look at some of the industries such as telecommunication, banking and ocean shipping which are of interest to the SEACEN countries.

Telecommunication: In most of the SEACEN countries, government post, telegraph and telephone monopolies (PTT) are the norm. Malaysia, however privatised its PTT several years ago. Domestic liberalisation of telecommunication does not mean that they would welcome foreign telecommunication services. There are strong nationalistic sentiments for preserving the national cultural heritage and identity, which could probably be undermined by the internationalisation of telecommunication services and the consequent influx of Western values and ideologies. Regardless of the validity of this argument, it is a force opposing the internationalisation of services. On the one hand, we must recognise the importance that governments attach to the acquisition and development of modern technology. Korea and Singapore have protected certain industries in which they do not have a static comparative advantage in order to help them acquire the technical, institutional and marketing tools to achieve international competitiveness. They see services industries such as telecommunications as the next logical step in technological

advancement and as industries in which to achieve international competitiveness. For them, the protection of these industries is necessary for economic development and for catching up with the industrial countries.

Banking: The banking sector comes under the financial services and is one of the highly regulated and protected areas in the SEACEN region, for various reasons and one of these would be to preserve the government's control over financial institutions. The restrictive measures vary in their degrees of intensity among the SEACEN members. At one extreme, Indonesia, Malaysia, the Philippines and Thailand impose severely restrictive conditions on foreign banking. At the other end is Singapore, probably one of the most open countries in the world in terms of banking. Between the two polar cases is Korea which began banking liberalisation in the early 1980s.

The U.S. and the EC propose freedom in international payments and transfers for current and capital transactions which are associated with the provision of banking services. This may have to be reconciled with the SEACEN stand which desires liberalisation to be gradual and progressive, taking fully into account the level of development of their financial sectors vis-a-vis those of the developed countries.

Liberalisation of the banking system means the loss of control over the allocation of resources and the reduction and alteration of the government's role in the economy. The SEACEN members will need to bear this in mind before deciding on the liberalisation of their banking system.

Ocean Shipping: The heavy reliance of the SEACEN members on foreign-owned ocean transport has taken its toll in the form of payments for shipping with the resulting adverse effect on their trade in services account. To resolve this problem, some of the SEACEN countries have adopted an approach involving measures to stimulate growth in their national fleet. Korea sought to expand its national fleet by offering subsidies when companies rushed to pick up second-hand vessels. The result of such effort is that the Korean shipping industry is now burdened with a huge debt and a fleet of aging ships.

Each SEACEN member country has some problems or the other in respect of its trade in the services account. It may be observed that

shipment items account for the main drain of foreign exchange for most of the SEACEN members, the cause being the weakness of shipping industry's competitiveness.

Market access will undoubtedly be an issue in the Uruguay Round negotiations in trade in services. In fact, market access has been listed as one of the objectives in the negotiations. It has been stated that market access provisions would not be obligatory. The developing countries will need to ensure that the framework does not provide for the recognition of any "right" to market access. They will also need to ensure in future negotiations that market access is not made dependent on reciprocal concessions.

There will also be the problem of the conflict between liberalising of various sectors to enable for entry of foreign services at competitive prices. Liberalisation in the financial and telecommunication sectors could be resisted for reasons other than economics, such as for reasons of national security and loss of control over financial resources.

Inasmuch as the definition of trade in services has not been settled, collection of data on services trade must pose a problem. The most serious problem will relate to the electronically transmitted across borders that will go unrecorded and for those services that will go unobserved such as professional services. Apart from the problem mentioned earlier, there will be statistics reported on a net basis rather than on a gross basis. There may also be misclassification of transactions. There is also the possibility that the coverage of collecting statistics may be incomplete. As such, we may say that data for trade in services would tend to be downward bias. The weakness in the collection of data for trade in services is compounded by lack of data to trace the direction of trade in services.

The incompleteness of data on services trade for the reasons given above points to the unreliability of its data compared to the data for goods. This means comparison of trade services data between countries and interpreting of trend should be done so with caution.

The problem of data collection, the problem faced in dealing with the trade in services imbalances and the difficulties encountered in the Uruguay Round negotiations relating to trade services are issues that need to be seriously tackled in the SEACEN region as they affect the economies in various degrees.

Section 3

POLICY MEASURES FOR PROBLEMS IN TRADE IN SERVICES

The problems faced by the SEACEN countries in their trade in non-factor services account, which were examined in the preceding part of this paper, have revealed where action is required to attend to these problems.

Indonesia with the largest deficit in the services trade account in the SEACEN region has undertaken policies aimed at reducing the deficit. The heavy reliance on foreign shipping services, with the cargo carried by foreign ships constituting 78 percent of the total, has shown that the national fleet has not been capable of meeting the demand. Shipment payments take 38 percent share in the total outflow of the trade in services account. Thus, attention has been directed to this sector by allowing shipowners freedom to decide their routes and foreigners encouraged to operate in Indonesian territory on a joint-venture basis or appoint national shipping companies as their agents. Measures to expand the non-oil economy to induce the inflow of funds, such as reducing restrictions on private sector businesses, and deregulation of certain banking activities have been introduced. In dealing with the deficiency in accommodation for tourists, more hotels are being constructed.

Korea enjoys a surplus in the trade in services account. Freight and insurance and tourism were the main sectors responsible for this surplus. In order to achieve this result and to maintain it, the Korean government has undertaken several measures. Such measures included prohibiting the use of foreign ships without waiver for those items listed in the Revised Shipping Promotion Law. Under the Enforcement Ordinance of the Shipping Promotion Law, eleven economically important items have been listed which are to be shipped to and from Korea only on national ships where they are in service. To cope with the increased demand for shipment of goods to and from Korea, subsidies were provided to augment the Korean merchandise fleet. The Tourist Promotion Law has been aimed at promotion of tourism, as receipts from this industry constituted one of the main sources contributing to the services trade surplus. Entry facilities for foreigners have been simplified and financial support, and tax exemption has been given for construction of hotels while tourist resort complex developments have

been encouraged by the State. At present, a new long-term tourism promotion plan is underway which includes activities relating to the "Visit Korea Year 1994" project.

Malaysia, with the second largest deficit in the services trade account in the SEACEN region has made considerable effort towards reducing this deficit. The Council on Malaysian Invisible Trade, established in 1988, has advised the government on issues relating to the country's trade in services and recommended measures to foster import substitution for Malaysia's services payments and promote the export of services. Studies on all aspects of the services account have been made and policy recommendations put up for government consideration.

The shipping industry, particularly the freight and insurance sector, has been the main cause of concern as this sector was mainly responsible for the services trade deficits. Concrete steps were taken to increase the carriage of goods by Malaysian ships. The Cabotage Policy carried out measures to phase out the use of foreign-flag ships in the area of coastal shipping. Priority was given to Malaysian shipping for all government imports, and port facilities and services were improved. To reduce outflow for freight, insurance shippers were encouraged to export on a c.i.f. basis and import on a f.o.b. basis. To assist the development of the shipping industry, tax exemption was granted for income derived from transportation business on a Malaysian ship, for dividends from income of shipping enterprise, for income from employment on board a Malaysian ship and for import of components for the local shipping industry. Expansion of the cargo carriage capacity has been undertaken through the purchase of new aircraft and ships.

To stem the outflow of payments for insurance, the central bank has been empowered to supervise efforts at greater retention capacity by redirecting net insurance outflows. These efforts involve issuing directives for government imports to be shipped on a f.o.b. basis, unless exempted, and persuading exports on a c.i.f. basis. Double tax deduction has been granted on premiums for locally insured cargo by Malaysian importers. Steps have also been taken to establish a market pooling of large risks. The supervisory machinery to safeguard the interest of insurance policy-holders has been strengthened.

In the educational field, government scholarships for pre-university studies abroad has been suspended, while awards of scholarships abroad

have been confined to areas of study not available in the local universities. Much attention has been devoted to promote tourism, as may be seen from assigning a ministry to spearhead and coordinate the orderly development of the tourism industry. Several fiscal measures such as tax allowance in investment in tourist projects, tax exemption on tour operators, double deduction on overseas tour promotion and training expenses, abolition of import duty on components for locally assembled tour buses and increasing the exemption level for services tax on hotels have been taken.

As a result of these measures, improvements in the services account have been recorded by way of growth in tourist receipts, marked slower growth in educational payments and higher earnings from shipping and airline companies.

The potential in the tourist industry in *Myanmar* as a source of foreign exchange earning has been recognised and the Government had created a Department of Myanmar Hotels and Tourism Services under the Ministry of Trade to promote the industry. With a desire to promote tourism as an important means of enlarging the economic base the particular infrastructure necessary for the expansion of tourism is being built up. The Government of Myanmar has also passed the Myanmar Tourism Law in June 1990 to put that industry on an orderly and efficient footing. In a greater effort to intensify the promotion of the industry, a new Ministry of Hotel and Tourism has been recently created which will concentrate on this particular activity. This move is expected to increase income from the tourist industry with the resulting increase in the receipts in the trade in services account. As this Ministry settles down on the job and expands its activities, receipts from tourism are expected to become one of the main sources of income for the services account.

Nepal, a surplus country in the trade in services account, depends a lot on its tourist industry for its foreign exchange receipts. As such, particular attention is being paid to promote further development of tourism and, among the measures taken, one that is expected to be effective should be the loan from the Asian Development Bank for the development of infrastructure relating to tourism. To increase receipts from its national carrier, Nepal has increased the number of flights for its national carrier and diversified its flights to European countries.

The *Philippines* is attending to the net outflow items of its trade in services account by measures to strengthen its financial system (including insurance companies) so as to stem the outflow for insurance payments and addressing the shortcomings in its infrastructure development (transportation and communication). Liberalisation moves in early 1992 are expected to boost invisible receipts and contribute to the improvement in the services trade account.

In becoming aware of its deterioration in international competitiveness, due to labour constraints, *Singapore* has set up an Economic Committee to map out a new economic strategy to attend to this problem. As Singapore's manufacturing sector becomes more developed and unemployment no longer a problem, the focus has shifted to that of promoting knowledge-based and skill-intensive activities. Accordingly, fiscal incentives have been offered for the financial and services sectors in recent years. To complement these incentives, Singapore has developed a good infrastructure and telecommunication system and a relatively well-educated workforce. Three decades of experience in manufacturing has put Singapore in a good position to provide technical support for decentralising some of the international manufacturing firms to a regional base. Singapore has adopted a strategy to use and exploit information technology to enhance its productivity and overcome the limitations of a small workforce. With a strategic location and a strong base in education and medical services, Singapore has the potential to develop into a major exporter of these two services. To increase receipts from port services, operations at port terminals have been customised, using the latest container handling and information technology to achieve reliability, speed and operational flexibility. Massive port expansion plans are also underway, to double the existing box capacity by mid-1990s. To further promote Singapore as an international air traffic junction, Singapore continues to adopt the "open sky" policy. In regard to increasing receipts from the tourist industry, Singapore has been exploring the potentials in some North-Western European countries, Taiwan and Korea. Though increasing the number of tourist arrivals will remain the main target, Singapore also aims to attract the high-spending, high-yield tourists, such as visitors attending conventions and trade exhibitions.

As the travel account contributes most to the trade in services account and this in turn is dependent on the tourist industry in *Sri Lanka*, policies

have been introduced to upgrade this industry. Initially, back in 1966, the Tourist Board was established for the encouragement, promotion and of the travel trade and tourist services, which would be efficient and attractive for foreigners. Subsequently, a tourism development plan was drawn up which was aimed at achieving broader objectives, such as:

- (1) providing optimum growth of international travel and tourism to and within Sri Lanka;
- (2) developing a tourist trade that would best utilise the resources available for tourism;
- (3) developing promotional programmes which will provide the greatest sustained economic benefit; and,
- (4) assisting the economic development process by creation of new employment earning of foreign currency.

The Sri Lanka port services has also received much attention as a source of foreign exchange earning. The establishment of the Sri Lanka Ports Authority in 1979 has further helped in the development of port services and the Port of Colombo has become one of the major transshipment ports in the region, with increasing receipts for its handling of these transshipments. The open market policies adopted since 1977 has helped the financial services sector to earn the highest annual growth rate of 15.6 percent for the period under study.

Thailand has been enjoying a surplus in its non-factor services account, but the sudden drop by almost 50 percent in this surplus in 1990 from the previous year indicates the threat imposed by the deficit in the shipment account. The redeeming sectors responsible in holding back the non-factor services account from ending up in deficit have been the travel and other transportation sectors, with tourism contributing a major share. Policies that have been undertaken aimed at promotion of tourism through budgetary support, increased cooperation between government offices, on a national, regional and provincial levels, and increased cooperation between the public and private sectors. The "Visit Thailand Year 1987" proved a huge success, due in no small way to the cooperation observed above. The encouraging response from the tourist industry to the promotion efforts, should not hide the fact that the problem of the deficit from the freight and insurance unless effectively attended to, is bound to overwhelm the non-

factor services account, assuming the trend in the payments for freight and insurance continue unchecked. To correct this trend, Thailand has adopted a policy of encouraging domestic firms to perform joint ventures with foreign firms to modernise and expand their domestic fleet with the view to reducing external payments for shipping.

Section 4

CURRENT NEGOTIATIONS IN THE GATT ON TRADE IN SERVICES

The desire of the United States to include trade in services under GATT auspices way back in 1980 against the insistence of developing countries that the services issue is outside the competence of the GATT was eventually reconciled and a compromise finally reached in September 1986 at the Punta del Este, Uruguay, Ministerial Meeting which launched the Uruguay Round. The compromise carefully balanced the United States' objective of including services in the Uruguay Round and the developing countries' dual objectives of maintaining multilateral action on services (as distinct from goods) outside the GATT and of obtaining recognition of the priority of development objectives and the supremacy of national laws and regulations.

The developing countries thus ultimately agreed to participate in the multilateral trade negotiations on services to preempt unilateral actions against them and the proliferation of discriminatory bilateral and regional arrangements. They were successful at Punta del Este in establishing a legally distinct negotiating process on trade in services to be conducted on an ad-hoc juridical frame of reference outside GATT. Formal trade-offs and linkages between goods and services have thus been excluded from the outset of the negotiations.

The Uruguay Round which was expected to be concluded in Brussels in December 1990 eventually collapsed, principally because of differences between the European Community and the United States on agriculture. After the suspension of the Uruguay Round negotiations at the Brussels Ministerial Meeting of December 1990, the negotiations on trade in services have recently resumed in earnest with an ambitious work programme.

We may examine the progress of negotiations on trade in services on some of the issues of interest to the SEACEN countries.

The text of the statement issued at the end of the Brussels Ministerial Meeting in December 1990 contains a general statement of good intentions but fall short of a binding obligation with respect to action by the developed countries. At the negotiations, developing

countries stressed that the ideas of gradualness and long-term progressive liberalisation need to be clearly reflected in the framework and any allusion to graduation should be excluded. It should also be recognised that developing countries should not be asked to adopt liberalisation measures which could conflict with their developmental and technological objectives, and that progressive liberalisation by developing countries would be governed by the active expansion of their services exports, not judged on hypothetical market opportunities, which they might not be able to translate into concrete benefits.

While developing countries need flexibility in using subsidies to improve their domestic capacity for production of services, they would have a clear interest in a total prohibition on subsidies by developed countries.

Developing countries' participation in telecommunication field could be increased by the allocation of financial and human resources to assist developing countries in introducing improvements in their telecommunication infrastructure. In the transport sector, the developing countries have expressed the opinion that the elimination of regulations and bilateral agreements would cause considerable difficulties for them. Tourism is the one service which constitutes an important source of earnings for the SEACEN region. The discussion of the scope of the tourism sector was influenced by the concern for developing countries that offers of concessions with respect to the tourism services should not extend to other areas such as financial services and transportation.

The discussions on the financial services proved to be of considerable interest to the SEACEN countries as most of them impose restrictions in the banking sector. The discussion on financial services covered banking and securities-related services and insurance services, and highlighted the crucial role the financial services sector played in the macroeconomic policies of countries. The United States, the European Community, the SEACEN countries², Canada, Japan, Sweden and Switzerland have submitted texts on the subject of financial services to the Working Group. The objectives of the United States and the European Community are to remove restrictions on market access

2. Malaysia on behalf of the SEACEN countries submitted text on the subject of financial services to the Working Group during the Brussels meeting (*Gibbs and Mina, 1991*).

for foreign suppliers of banking services. The removal would apply both to cross-border transactions and to the establishment by foreign banks of a commercial presence in a country for the purpose of supplying banking services. Under these proposals, there would be freedom for international payments and transfers for current and capital transactions associated with the provision of banking services.

It may be pointed out that such a binding of important parts of countries' systems of banking regulations is likely to have implications that diverge significantly for different groups of countries, in particular for developing countries which have rudimentary regulatory systems. The proposals of the United States and to some extent the European Community could form a special separate agreement which would exclude this sector from the coverage of the framework and would be applicable only for its signatories.

The SEACEN's position on the other hand provides that financial services should be included in the coverage of the framework and that the sectoral annotation on financial services should form an integral part of the framework. They believe that the annotations should therefore not impose more onerous liberalisation obligations on the financial services sector than in the other services sectors. The text proposed by the SEACEN is based on the overriding importance of prudential considerations, monetary policies, and national development objectives. It emphasises that the liberalisation of financial services in the developing countries should be gradual and progressive, taking fully into account the level of development of their financial sectors vis-a-vis those of the developed countries. In their opinion, market access should not imply automatic national treatment given the different levels of efficiency and expertise between foreign and local financial institutions. Nor should it imply automatic right of establishment or commercial presence. Flexibility, therefore, in the national treatment rule is necessary to reduce such inequalities, and the negotiations of commitments should be based on a positive-list approach.

Developing countries have drawn attention to the following: (i) the strategic importance of this sector in mobilising financial resources for development; (ii) their concern with respect to capital flight; (iii) the importance of clear distinction between investment and trade in the financial sector; and, (iv) the need for special standards and strict prudential regulations, given the difference between the competitiveness of developed and developing countries in the financial sector.

Due to these developments, the Brussels text did not include an annex on financial services. However, during the Ministerial Meeting itself, Canada, Japan, Sweden and Switzerland submitted an annex on financial services to serve as a basis for discussions at the Ministerial Meeting. The proposed sectoral annex is a self-contained financial services agreement which would exclude the sector from the overall agreement on services and would involve an instant accord to a programme for the liberalisation of financial services and a standstill on existing regulations. The annex, moreover, was designed to ensure that the concessions in financial services should not be traded for concessions in other services sectors and that there would be no cross-retaliation against financial services - neither within the services agreement and across sectors nor between goods and services.

The United States, the European Community, Switzerland and some other developed countries have been strongly pressing for initial commitments from all countries as an integral part of any multilateral framework and a condition for its acceptance. Developing countries have endeavoured to postpone the negotiations of initial commitments because they believe that it is not possible to negotiate these commitments in a situation where the rules of the game are not yet clear. As the framework and the annexes/annotations have not yet been finalised, there are crucial unresolved issues such as definitions, coverage, safeguards, dispute settlements, and exclusions, which have yet to be settled.

By 22 June 1991, twenty-four conditional offers concerning initial commitments on the basis of a set of explicit or implicit assumptions have been submitted. Indonesia, Korea and Singapore from the SEACEN group were the three countries included in the twenty-four offers submitted. These submissions constitute initial offers which will presumably be open to improvement. All offers are conditional which means that at the time of the closure of negotiations on the framework, countries will evaluate the result of the negotiations.

The offers that have been submitted so far differ substantially in their presentation, in the types of measures included, in the method of reference to specific types of measures and in the degree of detail. At this stage of the negotiations, there is a need for a common approach to formulation of schedules in order to ensure that the contractual elements represented by each party's schedule is as unambiguous as possible so as to achieve specificity and clarity of commitments.

Given the asymmetry in the situation of developed and developing countries, world trade in services being dominated by enterprises from developed countries on the basis of their strength with respect to capital, technology and information, a balanced solution would permit the developing countries to strengthen their services sector and to acquire the ability to penetrate world markets for services. It would mean that developing countries would be provided with a structure under which they would receive "credit" for any commitments that they might make to liberalise their service sectors, which could be traded-off for market access in service sectors where they have competitive possibilities and other advantages such as transfer of technology, resources, etc.

The above-mentioned asymmetry could also be mitigated by matching any provisions for free movement of capital to deliver services with that of freer movement of labour for the same purpose. The Uruguay Round should be expected to result in a framework for the future negotiation of liberalisation commitments in specific services sectors, and hopefully will contain specific obligations to correct the asymmetry and effectively address the quasi-private sector issues.

Section 5

MAJOR FINDINGS AND CONCLUDING REMARKS

This study has brought out some interesting features of the trade in services in the SEACEN countries and given us a better understanding of its development during the past 15 years.

I. Services Share in the Domestic Economy

The review of development of services activities in the domestic economy has shown that in most of the SEACEN countries the trend in the share of services in national production and employment conform to the general rising trend. With the exception of Korea, the Philippines and Sri Lanka, the other SEACEN countries recorded slight decrease in the share of services in GDP in 1990 compared to 1985 which was mainly because of reciprocal increment in the industry sector while the agricultural sector dominates in terms of contribution to the GDP in those countries. The share of employment in total employment in the domestic economy has been a rising trend in all the SEACEN countries, except in Singapore.

II. Development of Trade in Services

In examining the role of services in the external transactions, we settled the definition problem by deciding to include only those items under non-factor services to represent trade in services.

It has widely been assumed that industrial countries generally register surpluses in trade in services and that developing countries tend to run deficits. This assumption has been disproved as far as SEACEN members are concerned as only three countries, Indonesia, Malaysia and Myanmar, ran deficit in this account, whereas the rest enjoy surpluses. As a group, the SEACEN countries which were net importers of services back in 1980, have now become net exporters. This is mainly due to the tremendous increase in the services surplus of Singapore arising out of its substantial growth in services receipts. Korea, the Philippines and Thailand were also helpful in strengthening the overall surplus balance of the SEACEN region.

The change in the pattern of the development of trade in services attests to the significant contribution that services have made to the

region's external transactions. The large trade services deficits of Indonesia and Malaysia that previously could not be covered by the combined surplus of the other members have now been made possible; thanks to the unbelievably substantial increase in Singapore's services trade surplus. Singapore continues to maintain its place as the main exporter of services in 1990, followed by Korea, Thailand and the Philippines. On the import side, Korea has now become the major importer of services in 1990, followed by Singapore, Thailand and Malaysia. The major importer's position was previously held by Indonesia for many years. The relative importance of the services trade varies among individual countries. Nepal received nearly half of its total export earnings (goods plus services) from services (49.3 percent) in 1990. In the Philippines and Myanmar, services receipts accounted for 34.1 and 33.2 percent of total trade receipts respectively. For Sri Lanka, Singapore and Korea it ranged between 15 and 22 percent. Malaysia's export receipts from services as a ratio of total trade receipts were much lower at 15 percent, whereas the share of services exports in Indonesia was the lowest in the region, revealing the small content of its services exports in total exports. On the import side, Myanmar shares the top place with Indonesia with their share of service imports at 25 percent and 18 percent of total imports in 1990, closely followed by Thailand, Malaysia and Nepal. Though the share of Singapore's services imports in its total imports at 12 percent, in value terms its services imports are the second largest. The share of the Philippines' services imports in its total imports at 11 percent was the lowest in the region, closely followed by Sri Lanka.

In terms of net service balances, Singapore and Philippines ranked first and second respectively with the largest surplus in 1990, followed by Thailand and Korea. Indonesia continues to be the largest deficit country in the net services balance. It is quite interesting to note that in tracing the source of imbalance in the trade in services account in the SEACEN region, we find some common factors accountable for the outcome of the imbalances. The most glaring factor must be the weakness of the shipping industry in this region, which is reflected in the substantial payments for freight. According to available data, cargo carried by foreign shipping lines as a percentage of total shipped was 78 percent for Indonesia, 50 percent for Korea, 80 percent for Malaysia, and 80 percent for the Philippines³. The share of payments for shipment in

3. The Uruguay Round, Services in the World Economy, page 86.

total service payments in 1990 was 39 percent in Indonesia, 33 percent in Malaysia, 40 percent in Singapore and 55 percent in Thailand, whereas Sri Lanka's share of this payment in its total services payments at 1.3 percent was the lowest in the region. The problem of the deficiency in the shipping industry has not gone unattended. Most of the SEACEN members have tackled this problem with many governments intervening actively to expand national fleets. Indonesia, Malaysia, the Philippines and Thailand have adopted a policy of cabotage - of reserving domestic and government cargo for national-flag ships. Even Singapore which maintains a fairly liberal policy on ocean shipping, signed a 50-50 cargo sharing with Indonesia for Indonesia-Singapore trade. In addition to cargo sharing, financial assistance has been given, as in the case of Korea where subsidies were offered to shipping companies to expand the domestic fleet.

Despite the active intervention of government, the deficits in the shipment accounts have not turned into surpluses. One can, however, say that without such efforts, the deficits could have been much larger. We may also learn from these developments in the problem posed by the deficits in the shipment account that it is of a magnitude that will take time to tackle. Moreover, it brings home the simple fact that advanced nation's endowments in capital, the accumulation of sector - specific know how, specialised information and "contacts" constitute over time a powerful competitive advantage. In other words, it is a revelation that SEACEN countries are at a comparative disadvantage in the shipping industry vis-a-vis the experienced efficiency of nations specialising in this particular field.

The other factor of importance and beneficial to most of the SEACEN countries has to do with the travel account, particularly tourism. One is struck by the common enchanting appeal of the SEACEN region as a tourist attraction. In 1990, the share of receipts from travel in total services receipts was 89 percent in Indonesia, 40 per cent in Malaysia, 55 percent in Nepal, 31 percent in Sri Lanka and 59 percent in Thailand. The share of this item in Korea and Singapore registered 27 percent and 30 percent respectively, whereas the Philippines was the lowest (10 percent) closely followed by Myanmar (11 percent) in the region. Just as measures have been taken to improve receipts from shipment, efforts have also been directed towards increasing receipts from travel, especially the tourist industry in almost all the SEACEN countries, with effective results.

One notices that in Singapore and Korea the other transportation account has a contrasting impact on their overall services trade accounts. In Singapore, this item is the main contributor to the services trade surplus, whereas the deficit from this item in Korea is so large, needing the combined surplus of the other accounts to push the overall balance into a surplus. This may be due to the fact that Singapore's other transportation account includes other private services.

In terms of the combined values of services exports and imports in 1990, Singapore topped the list of the SEACEN countries with the highest aggregate, followed by Korea. Here we also observe that Singapore's services exports were nearly twice its imports with the resulting extremely large surplus, while in the case of Korea, services exports and imports were quite balanced to produce a small net surplus. The surplus in Singapore was so large as to offset the combined deficits of Indonesia and Malaysia and be responsible for the overall trade in services surplus of the SEACEN countries. We may look back over the years and recall that the overall trade in services in the SEACEN region had been in deficit up to 1980, mainly on account of Indonesia's huge deficit. As in the past, we again find the outcome of a single country's performance in the services trade account, that of Singapore, being responsible for the turnaround of the SEACEN region's trade in services account from a deficit to a surplus. The brief review of developments in the SEACEN trade in services bears witness to the phenomenal expansion of external transactions in services with interesting changing patterns and trends.

III. Summary of Empirical Results

The econometric models for the real exports and imports of various components of non-factor services are established and estimated by using the ordinary least squares (OLS) method for the systematic analysis of the major determinants of comparative advantage in trade in non-factor services. Cochrane-Orcutt procedure is also applied wherever necessary to correct the serial correlation. In what follows, the statistical results are summarised based on the goodness of fit and significant level.

As expected, the real receipts on shipment (freight and insurance) is significantly explained by real merchandise exports in most of the SEACEN countries. But in the case of Thailand, real receipts on

shipment shows a negative relationship with real merchandise exports. This may be due to the Thai shipping industry which has only old and small-sized freighters and cannot meet the demand for shipping. Also on the payments side, the real payments on shipment is positively influenced by the real values of merchandise imports in most of the SEACEN countries except in Nepal. In the case of Nepal, real merchandise imports have a negative sign contrary to expectations and there is no relationship between dependent and independent variable. This may be due to the fact that there are no seaports in Nepal and majority of imports are supplied from India by road transportation. On the whole, the regression results of the real shipment receipts and payments are satisfactory. The majority of the estimated coefficients of the real export and imports are statistically significant at the 1 per cent level of significance and the explanatory power of the regressions is high in most of the SEACEN countries. In other words, the real shipment receipts and payments can be significantly explained by real merchandise exports and imports respectively.

Though other transportation services is a combination of passenger fares and port services, lack of detailed breakdown in data led to a model which is constructed at an aggregate level. It is assumed that real other transportation services depends upon the real values of travel services and total trade (merchandise exports plus merchandise imports). The estimated coefficients of the real travel receipts and real total trade are significant and also the explanatory power of regressions is high only in Malaysia, the Philippines and Sri Lanka. In the cases of Indonesia and Korea, real receipts from other transportation services shows a negative relationship with real receipts from travel contrary to the expectations and then the relationships between dependent variable and independent variables are not statistically significant. In the cases of Nepal and Thailand, there are no relationships between explained variable and the regressors. In other words, real other transportation receipts cannot be explained by real travel receipts and its real total trade. Regarding the payments side, real other transportation payments can be explained by real travel payments and its real total trade only in Indonesia and the Philippines. In the case of Malaysia, real other transportation receipts and payments can be significantly explained by real travel receipts and payments respectively. On the whole, the real other transportation services receipts and payments models are acceptable in terms of the major statistical tests.

The real travel receipts for a country depends upon the weighted average real GDP of major tourist's countries and exchange rate of that country. In most of the SEACEN countries, except in Indonesia and Malaysia, the exchange rate variable has a positive sign contrary to the expectations and it cannot explain the real receipts on travel significantly. Regarding the weighted average real GDP of the major tourist's country, it also shows an unexpected minus sign in the cases of Indonesia and the Philippines. This likely reflects the fact that the travellers from rich countries are more inclined to go to developed countries rather than to developing countries. But in the case of Korea, the coefficient of this variable appears with the right sign and it is also found to be statistically significant. Regarding the travel payments, per capita real GDP and exchange rate index of the country currency per one unit of U.S. dollar cannot significantly explain the real payments on travel in most of the SEACEN countries. Even though the explanatory powers of the regressions are high in the cases of Korea, Malaysia and Myanmar, the coefficients of the variables show either insignificant or wrong signs. This seems largely due to either government effort in promoting the tourism industry or the relaxation of the various restrictions on travel abroad in most of the SEACEN countries.

The real other private services receipts and payments are specified as functions of per capita real GDP. The real other private services receipts and payments can be significantly explained by the per capita real GDP in the cases of Korea, Malaysia and the Philippines. For the rest of the SEACEN countries, the explanatory powers of the regressions are very low and the coefficients of the per capita real GDP are not statistically significant. Thus, we can draw a conclusion that per capita real GDP has no influence on real other private services receipts and payments in most of the SEACEN countries.

As we have seen above, some of the results were unsatisfactory and some determinant factors have opposite signs to those expected. This seems not only due to the problem intrinsic to the economic models but also to the fact that the trends of some non-factor items were strongly affected by policy measures of the government. It has also been explained that the main factors shaping comparative advantage in services trade are the availability of physical and human capital (Sapir and Lutz 1981). For developing countries, such factors are still not widespread and will be at a disadvantage in competing in an increasingly globalised

world trading environment for the export of services. Nevertheless, an attempt to analyse the determinants of comparative advantage in non-factor services has been made and the results obtained from the above regression equations indicate that conventional trade theory in some ways explains trade patterns in services in some SEACEN countries. In other words, the results indicate that the above models are able to quantify the determinants of comparative advantage to a certain extent but may not be suitable for some categories in some SEACEN countries. This probably reflects the lack of data for some important relevant variables which should be included in the model.

IV. Negotiations in Trade in Services

The SEACEN countries are now very much involved in the Uruguay Round negotiations in trade in services, although with the exception of Singapore, the rest came rather late into the negotiations in services. Rather than have the rules imposed upon them without ever participating in making the rules, the decision to participate in the process of making the rules must be considered a wise one.

One may consider some of the elements of the negotiations that are of interest to the SEACEN region. At the outset, expansion of trade was assigned the status of an objective to be achieved "under the conditions of transparency and progressive liberalisation". Liberalisation was thus not the ultimate aim but merely a means toward that aim. It was also recognized that with service structures and capacities varying widely across countries, there would be differences among countries to liberalise their markets for services.

Of particular interest to the SEACEN members should be "respect for national laws" as provided in the Punta del Este declaration. The text stated that the framework agreement should respect the policy objectives of national laws and regulations applying to services. This statement is undoubtedly quite assuring for us in that our national laws would not be pushed aside in the name of seeking liberalisation in trade in services. Dismantling barriers and liberalising trade in services are a desirable objective, but there are times when man tends to enthrone emotion above reason, such as the opposition to liberalisation of telecommunications for reasons of preserving national cultural heritage and safeguarding national security.

Setting aside some of these general observations, one may examine some of the points that have direct bearing on SEACEN interests. Barriers to entry to developed countries markets already distort the conditions of international trade. This explains, in part, why developing countries are not keen to give up national regulation in a number of sectors. Developing countries are entitled to establish such measures as may be necessary to deal with such barriers or at least to require regulation to protect their markets or industries: simply liberalisation of trade, when differentials in competitive advantages are so high, can in fact only benefit leading countries. Reducing the tremendous gap between the developed and developing countries is a long-term challenge, necessitating the mobilization of the necessary capital, human resources and technology. Telecommunications offers a short-cut to entering foreign markets in service exports. Korea and the Philippines have capitalized on their skilled manpower, favourable wage rates and low overhead to provide keypunching services for foreign customs.

The notion that telecommunications is a natural monopoly began to be challenged in the 1970s. The strict comprehensive regulatory policies have tended to constrain private entrepreneurs seeking to offer enhanced services. Appropriate regulation in the services agreement will be needed to determine the proper but not excessive level of regulations of telecommunications. The Uruguay Round negotiations on services have not only focused on the tradability of telecommunications service but also on the necessity of reforming telecommunications regulatory policy in most countries. The centrality of telecommunications service to development and trade is likely to become an important element in comparative advantage among developing countries. Korea and Singapore have seized telecommunications as a major tool of development and trade expansion. For them, development and catching up with the industrial countries means protection in telecommunications to achieve international competitiveness.

The financial services sector is highly regulated and protected in most of the SEACEN countries. The SEACEN members have shown particular interest in this sector. They have opted for a gradual and progressive liberalisation of the financial services taking fully into account the level of development of the financial sectors vis-a-vis those of developed countries. The objectives of the United States and the European Community are to remove restrictions on market access for foreign suppliers of financial services. This implies freedom of

international payments and transfer on current and capital accounts associated with the provision of banking services. One doubts if the SEACEN members would be agreeable to such proposals. If these proposals are accepted, it would mean a binding of important parts of a country's system of banking regulations with implications that diverge significantly for different groups of countries, in particular for developing countries which have a rudimentary regulatory system. As such, the United States proposal could mean a special separate agreement, which would exclude this sector from the coverage of the framework and would be applicable only for its signatories. Due to disagreements on this issue, the Ministerial Meeting submitted an annex on financial services as a self-contained financial services agreement which would exclude the sector from the overall agreement on services and would involve an instant accord to a programme for the liberalisation of financial services and a standstill on existing regulations. This proposal was immediately countered by the SEACEN group which largely reiterated its position mentioned above.

As deficits in the freight account have been a problem in the SEACEN's trade in services account, one should be following what is going on in the negotiations on this subject. One should endorse the opinion of the developing countries that the elimination of regulations and bilateral agreements concerning the shipping industry would cause considerable difficulties for them. In line with the other developing countries, one should also support the maintenance of existing agreements in the shipping sector, in particular, the United Nations Code of Conduct on Liner Conferences which should be viewed as an attempt to address an imbalance in the world shipping markets deriving from certain anti-competitive practices of market operators.

Tourism is the one service in the balance of payments account where SEACEN members show a surplus and constitute an important source of export earnings in many of the member countries. Here too the comparative advantage of the SEACEN countries in tourism has been spawned by natural endowments such as the rich culture heritage and the lure of exotic enchanting environments. The discussion of the scope of the tourism sector was influenced by the concern of developing countries that offers of concession with respect to the tourism sector should not extend to other areas such as financial services and transportation.

The trade in services negotiations involve the interest of so many countries with varying stages of development. The task of reaching an overall agreement on the various issues is going to prove quite a challenge. If a substantive agreement can be concluded at the end of the Uruguay Round, it may well represent a watershed in international economic relations toward a more open services economy, contributing greater opportunities for trade and development for all countries.

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EXPORTS AND IMPORTS OF GOODS PLUS NFS AND NFS

(Average Annual Growth Rates at Current Prices)

	1976-1980				1980-1985				1985-1990				1976-1990			
	Exports		Imports		Exports		Imports		Exports		Imports		Exports		Imports	
	Goods + NFS	NFS	Goods + NFS	NFS	Goods + NFS	NFS	Goods + NFS	NFS	Goods + NFS	NFS	Goods + NFS	NFS	Goods + NFS	NFS	Goods + NFS	NFS
Indonesia	27.2	19.3	18.9	20.5	-3.3	23.0	0.8	7.0	8.6	24.7	9.0	3.3	9.0	22.6	8.7	9.3
Korea	23.8	32.2	27.7	34.5	8.0	4.1	3.7	1.1	18.3	15.0	20.1	22.6	16.0	15.5	16.2	17.5
Malaysia	25.4	28.2	30.0	34.4	4.1	11.0	3.3	7.5	14.1	15.6	16.2	8.5	13.4	17.4	13.4	15.0
Myanmar	23.4	21.4	31.2	22.3	-1.2	-1.6	-1.0	0.5	7.6	28.4	2.3	28.0	8.6	14.9	8.6	15.9
Nepal	10.0	23.8	15.9	16.4	5.9	2.8	7.3	5.1	4.8	6.3	7.9	7.0	6.7	9.7	12.1	8.9
Philippines	23.3	26.1	20.4	18.4	-0.3	9.3	-8.1	-9.2	10.8	8.7	18.4	14.6	10.0	13.6	10.8	6.5
Singapore	28.1	21.4	27.8	28.9	2.8	1.0	2.3	6.4	18.9	19.7	18.1	18.4	15.3	13.1	15.2	16.8
Sri Lanka	19.8	33.9	34.2	41.1	3.8	1.1	0.8	10.5	9.3	12.7	5.9	8.1	10.1	13.9	12.0	17.6
Thailand	23.6	36.2	25.9	20.8	3.8	9.4	0.4	2.5	24.8	20.4	28.6	28.4	16.5	20.5	18.0	16.4
SEACEN Region	25.6	26.8	25.5	26.7	2.9	5.3	1.6	4.2	16.5	17.0	18.0	15.4	13.8	15.3	13.8	14.3

Sources: Country sources.

Review of the Financial, Economic and Social Conditions, various issues for Myanmar.

SHARE OF NON-FACTOR SERVICES EXPORT CATEGORIES, BY SEACEN COUNTRIES

(At Current Prices, in Per Cent)

	1976				1980				1985				1990			
	Shipment	Other Transportation	Travel	Other Private Services	Govt. Services	Shipment	Other Transportation	Travel	Other Private Services	Govt. Services	Shipment	Other Transportation	Travel	Other Private Services	Govt. Services	
Indonesia	-	100.0	-	-	-	-	26.1	73.9	-	-	-	31.5	68.5	-	-	-
Korea	11.5	11.0	17.5	47.7	12.3	19.9	13.8	7.7	52.4	6.2	22.6	12.9	13.4	41.9	9.2	7.6
Malaysia	11.1	32.2	30.4	12.9	13.5	16.5	30.6	26.0	19.5	7.3	17.2	22.3	30.3	25.4	4.9	2.3
Myanmar	20.9*	-	20.5	48.3	10.3	35.4*	-	17.7	39.0	7.9	13.0*	-	26.2	50.1	10.7	7.4
Nepal	-	5.5	30.9	43.6	20.0	-	6.2	41.9	32.6	19.4	-	7.4	27.7	24.3	40.5	18.9
Philippines	4.3	9.0	12.5	46.8	27.4	5.3	5.6	17.0	59.6	12.4	5.7	1.3	17.3	63.0	12.7	7.8
Singapore	5.1	75.2**	18.3	-	1.4	9.1	66.1**	23.5	-	1.3	10.7	61.7**	26	-	1.6	0.6
Sri Lanka	2.8	32.5	32.5	24.1	8.2	1.5	17.5	42.7	35.0	3.3	4.4	25.9	33.5	31.6	4.6	3.0
Thailand	14.8	10.4	36.8	19.1	18.9	10.1	6.3	46.5	30.5	6.6	11.7	4.5	40.1	38.8	4.9	1.7

* Including other transportation services.

** Other transportations and private services.

Sources: Country sources.

Review of the Financial, Economic and Social Conditions, various issues for Myanmar.

SHARE OF NON-FACTOR SERVICES IMPORT CATEGORIES, BY SEACEN COUNTRIES

(At Current Prices, in Per Cent)

	1976					1980					1985					1990				
	Shipment	Other Trans- portation	Travel	Private Services	Govt. Services	Shipment	Other Trans- portation	Travel	Private Services	Govt. Services	Shipment	Other Trans- portation	Travel	Private Services	Govt. Services	Shipment	Other Trans- portation	Travel	Private Services	Govt. Services
Indonesia	51.6	6.1	5.6	36.7	-	42.9	9.2	12.3	35.6	-	27.3	5.5	11.3	55.8	-	29.1	10.3	13.6	37.0	-
Korea	28.2	29.4	3.9	98.3	5.2	24.4	35.8	9.1	26.9	3.9	12.8	32.9	19.8	36.3	3.1	12.0	28.4	24.5	33.4	1.8
Malaysia	38.8	12.5	22.7	20.5	5.4	36.2	14.1	25.7	20.7	3.3	27.1	10.6	28.6	30.8	2.8	32.8	13.5	24.5	26.2	3.0
Myanmar	56.5*	-	7.8	3.7	32.0	56.8**	-	6.2	26.9	10.1	31.8*	-	8.7	51.9	7.6	9.2*	-	4.3	82.9	3.6
Nepal	8.1	8.1	35.1	43.2	5.4	8.8	10.3	38.2	36.8	5.9	4.6	12.6	36.8	41.4	4.6	13.1	5.7	34.4	41.0	5.7
Philippines	43.5	5.0	3.8	36.8	10.9	39.2	13.3	7.3	31.8	8.4	38.0	4.3	4.1	51.1	2.5	47.3	10.2	6.3	33.9	2.3
Singapore	44.9	37.8**	16.6	-	0.7	42.5	45.3**	11.4	-	0.8	37.9	45.6**	15.4	-	1.0	40.4	39.0*	19.7	-	0.9
Sri Lanka	7.2	21.4	7.2	53.0	11.1	3.1	19.0	21.9	51.2	9.8	1.3	30.3	18.3	43.4	6.7	1.3	42.0	21.3	31.3	4.2
Thailand	53.1	3.5	25.0	15.4	3.0	62.2	6.1	13.8	14.7	2.2	57.6	7.0	15.1	16.5	3.9	55.1	4.9	22	15.6	2.3

* Including other transportation services.

** Other transportations and private services.

Sources: Country sources.

Review of the Financial, Economic and Social Conditions, various issues for Myanmar.

(Average Annual Growth Rate at Current Prices)

	1976-1980						1981-1985						1986-1990					
	Shipment	Other Trans- portation	Other Private Services	Govt. Services	Shipment	Other Trans- portation	Other Private Services	Govt. Services	Shipment	Other Trans- portation	Other Private Services	Govt. Services	Shipment	Other Trans- portation	Other Private Services	Govt. Services	Shipment	Other Trans- portation
Indonesia	-	-14.7	-	-	-	27.9	21.1	-	-	-	0.9	31.5	-	-	-	-	-	-
Korea	51.6	40.2	35.4	11.2	6.7	2.6	16.3	-0.5	12.8	11.5	15.3	32.2	9.9	10.6	19.8	16.9	19.1	12.6
Malaysia	41.6	26.6	23.3	9.2	11.9	4.1	14.4	17.1	2.4	10.6	12.2	21.9	15.5	-0.4	19.2	13.1	19.6	23.1
Nicaragua	38.4*	-	17.0	15.1	13.6	-19.3*	-	6.4	3.5	4.6	8.3*	-	14.7	38.0	19.3	-4.5*	-	12.3
Nepal	-	27.8	33.5	15.0	22.8	-	6.6	-5.4	-3.0	19.1	-	-18.3	21.8	6.4	-8.7	-	2.1	14.3
Philippines	33.0	12.2	36.2	34.0	3.4	10.8	-19.0	9.6	10.5	9.9	0.4	17.5	-1.6	12.9	-1.4	12.7	1.5	12.2
Singapore	40.3	17.5**	7.6	-	20.4	4.4	-0.4**	3.0	-	4.0	19.0	18.6**	23.2	-	0.5	19.0	11.2**	17.2
Sri Lanka	14.2	14.7	-13.4	46.9	6.9	25.8	9.4	-3.7	-0.9	8.3	-3.6	20.8	11.2	9.1	3.1	11.3	14.9	13.6
Thailand	23.9	20.1	44.4	53.1	4.7	12.5	2.3	6.2	14.8	2.8	6.4	+5.9	29.9	73.1	4.5	13.4	21.6	24.6

• Including other transportation services.

Other transportation and private services.

Sources: Country sources.

Review of the Financial, Economic and Social Conditions, various issues for Myanmar.

IMPORTS (DEBIT) OF NON-FACTOR SERVICES CATEGORIES

(Average Annual Growth Rate at Current Prices)

	1976-1980					1980-1985					1985-1990					1976-1990				
	Shipment	Other Trans- portation	Travel	Private Services	Govt. Services	Shipment	Other Trans- portation	Travel	Private Services	Govt. Services	Shipment	Other Trans- portation	Travel	Private Services	Govt. Services	Shipment	Other Trans- portation	Travel	Private Services	Govt. Services
Indonesia	15.0	33.4	47.3	19.6	-	-2.2	-3.5	5.2	17.0	-	11.0	17.0	-2.2	-4.9	-	-7.2	13.1	16.6	16.6	-
Korea	29.7	48.0	65.9	23.2	24.7	-11.1	-0.5	11.6	7.4	-3.2	21.1	19.0	35.5	20.5	9.7	10.6	18.8	34.0	16.4	8.8
Malaysia	32.1	38.6	38.6	34.7	18.3	1.5	1.6	9.9	16.4	4.0	12.7	13.7	5.1	5.0	10.2	13.6	15.6	15.6	17.0	10.2
Myanmar	22.5*	-	15.2	100.6	-8.2	-10.5*	-	-7.9	14.6	-5.1	-	-	11.0	-40.6	10.1	1.8*	-	11.0	-44.7	-0.8
Nepal	18.9	23.6	18.9	11.8	18.9	-7.8	9.5	4.2	7.6	-	32.0	-8.6	5.6	6.8	11.8	12.7	6.2	8.7	8.5	9.1
Philippines	15.4	50.9	39.5	14.2	10.9	-9.8	-27.7	-19.0	-0.2	-28.9	19.7	30.5	21.6	5.6	12.7	7.1	12.0	10.3	5.8	-4.8
Singapore	27.2	31.9*	17.4	-	31.5	1.0	6.6**	13.0	-	13.5	19.9	14.8**	21.3	-	11.9	15.9	17.1**	18.2	-	18.9
Sri Lanka	13.8	37.0	86.1	-40.0	14.5	-6.3	21.2	6.6	6.8	18.1	-7.1	15.4	11.1	1.3	-1.8	3.9	23.4	27.0	13.2	9.6
Thailand	25.6	38.8	5.9	19.5	11.9	0.9	5.3	2.9	4.8	14.9	27.2	19.7	38.5	27.0	15.7	16.7	19.3	15.4	16.5	14.3

* Including other transportation services.

** Other transportations and private services.

Sources: Country sources.

Review of the Financial, Economic and Social Conditions, various issues for Myanmar.

EXPORTS (CREDIT) OF TOTAL NON-FACTOR SERVICES

(Million U.S. Dollars at Current Prices)

	1976	1977	1978	1979	1980	1981	1982	1983	1984	1985	1986	1987	1988	1989	1990	Average Annual Growth Rate			
																1976-80	1980-85	1985-90	1976-90
Indonesia	140.0	18.0	187.0	220.0	284.0	279.0	308.0	399.0	521.0	801.0	805.0	1024.0	1326.0	1820.0	2418.0	19.3	23.0	24.7	22.6
Korea	1573.5	2887.3	4164.3	4494.7	4810.8	5885.3	6793.4	6597.5	6597.2	5870.5	7239.3	9244.6	10223.4	10961.6	11823.6	32.2	4.1	15.0	15.5
Malaysia	451.0	553.0	702.0	875.0	1217.0	1412.0	1683.0	1973.0	2046.0	2052.0	2090.0	2446.0	2608.0	3155.0	4240.0	28.2	11.0	15.6	17.4
Myanmar	23.4	23.1	19.9	41.5	50.8	41.5	50.7	43.2	40.8	46.9	54.0	53.5	46.9	130.3	163.4	21.4	-1.6	28.4	14.9
Nepal	55.0	68.0	83.0	111.0	129.0	160.0	163.0	168.0	162.0	148.0	174.0	211.0	213.0	220.0	201.0	23.8	2.8	6.3	9.7
Philippines	744.0	946.0	1303.0	1462.0	1881.0	2372.0	2614.0	2752.0	2301.0	2929.0	3556.0	3154.0	3287.0	4227.0	4447.0	26.1	9.3	8.7	13.6
Singapore	2799.8	3094.3	3664.0	4442.8	6085.4	8612.5	9709.3	9297.5	7581.8	6383.2	6219.9	7447.2	9371.9	11742.0	15702.7	21.4	1.0	19.7	13.1
Sri Lanka	72.1	89.6	104.3	152.7	231.7	279.8	290.7	296.5	278.7	245.3	310.8	328.3	342.6	346.5	445.6	33.9	1.1	12.7	13.9
Thailand	542.3	586.8	922.7	1221.8	1865.6	2087.1	2331.6	2691.7	2857.1	2920.0	3099.0	3913.1	5580.1	6407.0	7598.5	36.2	9.4	20.4	20.5

Sources: Country sources.
Review of the Financial, Economic and Social Conditions, various issues for Myanmar.

IMPORTS (DEBIT) OF TOTAL NON-FACTOR SERVICES

(Million U.S. Dollars at Current Prices)

	1976	1977	1978	1979	1980	1981	1982	1983	1984	1985	1986	1987	1988	1989	1990	Average Annual Growth Rate		
																1976-80	1980-85	1985-90
Indonesia	1724.0	1743.0	2298.0	2846.0	3635.0	4828.0	4640.0	4161.0	4190.0	5092.0	4222.0	4399.0	4563.0	5342.0	5986.0	20.5	7.0	3.3
Korea	1180.8	1979.9	3040.6	3342.5	3860.6	4269.4	4044.4	4061.6	4143.4	4086.6	4598.5	5417.9	6880.4	9474.3	11315.2	34.5	1.1	22.6
Malaysia	863.0	1085.0	1401.0	2184.0	2816.0	3007.0	3351.0	4080.0	4419.0	4049.0	3715.0	3869.0	4579.0	5169.0	6082.0	34.4	7.5	8.5
Myanmar	26.9	25.9	40.7	52.8	60.2	66.8	64.5	59.5	45.6	61.7	44.4	41.7	35.8	52.2	212.4	22.3	0.5	28.0
Nepal	37.0	34.0	43.0	54.0	68.0	77.0	68.0	62.0	73.0	87.0	94.0	102.0	116.0	114.0	122.0	16.4	5.1	7.0
Philippines	736.0	861.0	1094.0	1187.0	1448.0	1641.0	1831.0	1720.0	1690.0	894.0	850.0	1158.0	1318.0	1568.0	1766.0	18.4	-9.2	14.6
Singapore	1054.1	1277.5	1547.4	2050.0	2911.7	3254.0	3612.7	3781.4	4023.4	3975.9	4165.4	5015.6	6226.9	7294.2	9262.1	28.9	6.4	18.4
Sri Lanka	38.7	39.7	81.5	89.8	153.6	178.5	211.8	219.9	213.1	252.8	301.7	325.9	330.7	343.0	373.2	41.1	10.5	8.1
Thailand	775.1	859.4	1006.5	1329.3	1649.8	1845.4	1703.6	1949.3	1966.3	1864.9	1881.6	2459.4	3641.7	4626.9	6501.5	20.8	2.5	28.4

Sources: Country sources.
 Review of the Financial, Economic and Social Conditions, various issues for Myanmar.

NON-FACTOR SERVICES TRANSACTION IN THE SEACEN REGION

(Million U.S. Dollars at Current Prices)

	1976	1977	1978	1979	1980	1981	1982	1983	1984	1985	1986	1987	1988	1989	1990
Shipment															
Credit	492.6	753.3	987.0	1382.1	2019.3	2498.0	2626.0	2856.7	3123.3	2883.6	3104.4	3815.8	4532.7	4775.6	5141.1
Debit	2784.1	3237.1	3769.5	4838.4	6395.6	6594.2	6783.3	6813.4	6527.5	5962.1	5988.8	7075.3	9306.3	11186.3	13897.9
Balance	-2291.5	-2483.8	-2782.5	-3456.3	-4376.3	-4096.2	-4157.3	-3956.7	-3404.2	-3078.5	-2854.4	-3259.5	-4773.6	-6410.7	-8756.8
Other Transportation															
Credit	2713.9	2851.6	3201.2	3871.1	5405.3	7628.1	8775.5	8185.9	6535.7	5652.9	5264.7	6385.3	7794.3	10009.1	12998.9
Debit	976.2	1388.0	1818.7	2498.0	3763.1	4344.2	4160.5	4223.2	4287.2	4127.3	4418.9	5379.5	6191.7	7277.5	8926.9
Balance	1737.7	1463.6	1382.5	1373.1	1642.2	3283.9	4615.0	3962.7	2248.5	1525.6	845.8	1005.8	1602.6	2731.6	4072.0
Travel															
Credit	1262.2	1593.0	2307.2	2757.7	3678.7	4373.4	4892.9	5287.0	5273.2	5427.2	6826.5	8561.5	11472.4	13712.6	16778.1
Debit	752.2	848.7	1339.2	1844.0	2266.5	2555.3	3019.4	3317.0	3253.4	3355.9	3364.2	3674.9	4707.0	6759.8	8567.2
Balance	510.0	744.3	968.0	913.7	1412.2	1818.1	1873.5	1970.0	2019.8	2071.3	3462.3	4886.6	6765.4	6952.8	8210.9
Other Private Services															
Credit	1312.9	2456.4	3944.2	4134.8	4591.6	5669.8	6588.5	6722.0	6248.4	6099.5	6537.0	7308.2	7492.8	8561.1	10288.2
Debit	1689.2	2201.1	3225.3	3610.3	3739.8	5159.1	5086.5	5253.0	5728.1	6517.0	5663.4	6106.1	6921.7	8125.9	9541.4
Balance	-376.3	255.3	718.9	524.5	851.8	510.7	1502.0	1469.0	520.3	-417.5	873.6	1202.1	571.1	435.2	746.8
Other Govt. Services															
Credit	619.5	611.8	710.6	855.8	860.4	959.9	1062.8	1166.8	1205.0	1332.7	1815.4	1750.9	1706.7	1951.0	1633.5
Debit	233.9	230.5	310.0	344.7	437.9	514.3	477.3	488.1	367.6	400.6	467.3	552.7	564.8	634.1	687.0
Balance	385.6	381.3	400.6	511.1	422.5	445.6	585.5	678.7	837.4	932.1	1348.1	1198.2	1141.9	1316.9	946.5
SEACEN Region															
Credit	6401.1	8266.1	11150.2	13001.5	16555.3	21129.2	23945.7	24218.4	22385.6	21395.9	23548.0	27821.7	32998.9	39009.4	46839.8
Debit	6435.6	7905.4	10462.7	13135.4	16602.9	19167.1	19527.0	20094.7	20163.8	20362.9	19872.6	22788.5	27691.5	33983.6	41620.4
Balance	-34.5	360.7	687.5	-133.9	-47.6	1962.1	4418.7	4123.7	2221.8	1033.0	3675.4	5033.2	5307.4	5025.8	5219.4

Source: Country sources.

NET NON-FACTOR SERVICES IN THE SEACEN COUNTRIES

(Million U.S. Dollars at Current Prices)

	1976	1977	1978	1979	1980	1981	1982	1983	1984	1985	1986	1987	1988	1989	1990
Indonesia															
Shipment	-890.0	-983.0	-1003.0	-1155.0	-1558.0	-1903.0	-2053.0	-2046.0	-1648.0	-1392.0	-1290.0	-1354.0	-1502.0	-1772.0	-2343.0
Other Trans- portation	34.0	-104.0	-127.0	-109.0	-262.0	-362.0	-277.0	-247.0	-252.0	-28.0	-83.0	-115.0	-227.0	-240.0	-351.0
Travel	-95.0	-91.0	-125.0	-156.0	-237.0	-368.0	-282.0	-136.0	-72.0	-28.0	157.0	477.0	806.0	871.0	1339.0
Other Private Services	-633.0	-547.0	-856.0	-1206.0	-1294.0	-1916.0	-1720.0	-1343.0	-1097.0	-2842.0	-2201.0	-2383.0	-2314.0	-2381.0	-2213.0
Other Govt. Services	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Total	-1584.0	-1725.0	-2111.0	-2626.0	-3351.0	-4549.0	-4332.0	-3762.0	-3669.0	-4290.0	-3417.0	-3375.0	-3237.0	-3522.0	-3568.0
Korea															
Shipment	-152.0	-61.6	-121.4	-196.8	15.0	763.6	944.6	1050.7	1048.9	802.3	794.1	992.3	1091.3	1040.8	921.2
Other Trans- portation	-115.4	-260.1	-383.2	-388.9	-714.5	-844.9	-544.2	-489.9	-465.6	-588.0	-846.8	-1049.0	-1183.8	-1277.4	-1668.3
Travel	228.8	267.3	200.1	-79.3	19.7	8.6	-129.9	40.8	97.2	178.4	934.5	1594.9	1911.2	955.0	393.1
Other Private Services	299.1	787.2	1221.3	1515.6	1482.4	1334.8	2218.4	1585.1	1352.0	976.1	1208.2	1602.4	803.3	-8.3	168.9
Other Govt. Services	132.2	174.6	206.9	301.6	147.6	153.8	262.1	349.2	421.3	415.1	550.8	686.1	721.0	777.2	693.5
Total	392.7	907.4	1123.7	1152.2	950.2	1615.9	2751.0	2535.9	2453.8	1783.9	2640.8	3826.7	3343.0	1487.3	508.4
Malaysia															
Shipment	-285.0	-359.0	-458.0	-602.0	-818.0	-872.0	-921.0	-918.0	-905.0	-747.0	-506.0	-470.0	-791.0	-1118.0	-1414.0
Other Trans- portation	37.0	64.0	62.0	10.0	-25.0	3.0	66.0	23.0	-43.0	26.0	57.0	18.0	-17.0	-1.0	-7.0
Travel	-59.0	-79.0	-140.0	-252.0	-407.0	-292.0	-332.0	-476.0	-533.0	-537.0	-530.0	-527.0	-536.0	-329.0	188.0
Other Private Services	-119.0	-167.0	-166.0	-459.0	-346.0	-437.0	-493.0	-751.0	-902.0	-727.0	-573.0	-367.0	-544.0	-470.0	-525.0
Other Govt. Services	14.0	9.0	3.0	-6.0	-3.0	3.0	12.0	15.0	10.0	-12.0	-73.0	-77.0	-83.0	-96.0	-84.0
Total	-412.0	-532.0	-699.0	-1309.0	-1599.0	-1595.0	-1668.0	-2107.0	-2373.0	-1997.0	-1625.0	-1423.0	-1971.0	-2014.0	-1842.0

NET NON-FACTOR SERVICES IN THE SEACEN COUNTRIES

(Million U.S. Dollars at Current Prices)

	1976	1977	1978	1979	1980	1981	1982	1983	1984	1985	1986	1987	1988	1989	1990
Myanmar															
Shipment	-10.3	-9.7	-15.5	-5.0	-16.2	-25.8	-13.7	-5.3	-8.0	-13.5	-9.8	-4.0	-6.2	-6.0	-10.5
Other Trans- portation	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Travel	2.7	2.4	3.8	4.4	5.3	6.2	7.6	8.7	7.7	6.9	7.7	7.6	7.8	11.1	15.3
Other Private Services	10.3	10.2	-5.1	-7.1	3.6	-3.6	-7.2	-16.5	-5.5	-8.5	12.7	8.5	10.4	69.6	-58.2
Other Govt. Services	-6.2	-5.7	-4.0	-3.6	-2.1	-2.1	-0.5	-3.2	1.0	0.3	-1.0	-0.3	-0.9	3.4	4.4
Total	-3.5	-2.8	-20.8	-11.3	-9.4	-25.3	-13.8	-16.3	-4.8	-14.8	9.6	11.8	11.1	78.1	-49.0
Nepal															
Shipment	-3.0	-4.0	-4.0	-6.0	-6.0	-4.0	-3.0	-1.0	-2.0	-4.0	-7.0	-6.0	-7.0	-8.0	-16.0
Other Trans- portation	0.0	0.0	0.0	0.0	1.0	1.0	0.0	3.0	2.0	0.0	-6.0	-8.0	-11.0	-2.0	-3.0
Travel	4.0	9.0	13.0	22.0	28.0	41.0	43.0	37.0	16.0	9.0	28.0	49.0	41.0	60.0	68.0
Other Private Services	8.0	18.0	16.0	19.0	17.0	10.0	21.0	26.0	5.0	0.0	3.0	17.0	18.0	8.0	-1.0
Other Govt. Services	9.0	11.0	15.0	22.0	21.0	35.0	34.0	41.0	68.0	56.0	62.0	57.0	56.0	48.0	31.0
Total	18.0	34.0	40.0	57.0	61.0	83.0	95.0	106.0	89.0	61.0	80.0	109.0	97.0	106.0	79.0
Philippines															
Shipment	-288.0	-262.0	-329.0	-380.0	-468.0	-427.0	-495.0	-395.0	-223.0	-173.0	-231.0	-340.0	-436.0	-595.0	-666.0
Other Trans- portation	30.0	-10.0	-34.0	-99.0	-86.0	-110.0	-147.0	-134.0	-72.0	-1.0	-8.0	-48.0	-77.0	-73.0	-97.0
Travel	65.0	110.0	159.0	164.0	214.0	218.0	303.0	244.0	347.0	469.0	591.0	370.0	329.0	392.0	355.0
Other Private Services	77.0	119.0	403.0	469.0	661.0	901.0	948.0	1160.0	947.0	1389.0	1645.0	1556.0	1771.0	2420.0	2782.0
Other Govt. Services	124.0	128.0	100.0	101.0	112.0	149.0	174.0	157.0	212.0	351.0	709.0	458.0	382.0	515.0	307.0
Total	8.0	85.0	299.0	255.0	433.0	731.0	783.0	1032.0	1211.0	2035.0	2706.0	1996.0	1969.0	2659.0	2681.0

Appendix Table 1.9 (Cont'd)

NET NON-FACTOR SERVICES IN THE SEACEN COUNTRIES

(Million U.S. Dollars at Current Prices)

	1976	1977	1978	1979	1980	1981	1982	1983	1984	1985	1986	1987	1988	1989	1990
Singapore															
Shipment	-330.7	-359.0	-340.1	-423.6	-686.4	-717.4	-842.5	-760.1	-791.9	-825.7	-882.4	-1000.1	-1357.4	-1524.3	-2116.0
Other Trans- portation	1707.6	1719.5	1843.3	1928.8	2700.7	4586.6	5461.1	4778.1	3021.6	2128.6	1758.9	2033.6	2770.8	3949.8	5640.7
Travel	337.5	424.8	575.7	849.9	1100.2	1417.7	1404.8	1432.4	1257.7	1047.1	1122.3	1344.8	1691.4	1973.1	2897.8
Other Private Services	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Other Govt. Services	31.3	31.5	37.7	37.7	59.2	71.6	73.2	65.7	71.0	57.3	55.7	53.3	40.2	49.2	18.1
Total	1745.7	1816.8	2116.6	2392.8	3173.7	5358.5	6096.6	5516.1	3558.4	2407.3	2054.5	2431.6	3145.0	4447.8	6440.6
Sri Lanka															
Shipment	-0.8	-0.7	-1.3	-1.1	-1.3	-0.9	-0.5	2.9	8.5	7.3	8.3	8.3	9.5	7.9	4.1
Other Trans- portation	15.1	15.3	1.3	3.8	11.3	12.6	12.1	6.3	3.9	-13.0	-11.3	-7.5	-3.1	-16.8	6.7
Travel	20.6	29.6	19.7	38.2	65.4	80.1	88.2	63.3	54.4	35.9	28.8	8.8	-2.8	7.6	60.3
Other Private Services	-3.1	4.5	1.0	19.5	2.4	6.9	-19.8	-0.5	-1.6	-32.1	-12.3	-8.7	6.2	2.6	3.3
Other Govt. Services	1.6	1.2	2.1	2.5	0.3	2.6	-1.1	4.6	0.4	-5.6	-4.4	1.5	2.1	2.2	-2.0
Total	33.4	49.9	22.8	62.9	78.1	101.3	78.9	76.6	65.6	-7.5	9.1	2.4	11.9	3.5	72.4
Thailand															
Shipment	-331.7	-444.8	-510.2	-686.8	-837.4	-909.7	-773.2	-884.9	-883.7	-732.9	-730.6	-1086.0	-1774.8	-2436.1	-3116.6
Other Trans- portation	29.4	38.9	20.1	27.4	16.7	-2.4	44.0	23.2	53.6	1.0	-15.0	181.7	350.7	392.0	550.9
Travel	5.4	71.2	261.7	322.5	623.6	706.5	770.8	745.8	844.8	890.0	1123.0	1561.5	2517.8	3012.0	2894.4
Other Private Services	-15.6	30.4	104.7	173.5	325.4	414.6	534.6	808.9	822.4	827.0	791.0	776.9	820.2	794.3	589.8
Other Govt. Services	79.7	31.7	39.9	55.9	87.5	32.7	31.8	49.4	53.7	70.0	49.0	19.6	24.5	17.9	-21.5
Total	-232.8	-272.6	-83.8	-107.5	215.8	241.7	628.0	742.4	890.8	1055.1	1217.4	1453.7	1938.4	1780.1	897.0

Source: Country sources.

TOTAL EXPORTS AND IMPORTS OF NON-FACTOR SERVICES IN THE SEACEN COUNTRIES

(Million U.S. Dollars at Current Prices)

	1976	1977	1978	1979	1980	1981	1982	1983	1984	1985	1986	1987	1988	1989	1990
1. Indonesia															
Export	140.0	18.0	187.0	220.0	284.0	279.0	308.0	399.0	521.0	801.0	805.0	1024.0	1326.0	1820.0	2418.0
Import	1724.0	1743.0	2298.0	2626.0	3635.0	4828.0	4640.0	4161.0	4190.0	5091.0	4222.0	4399.0	4563.0	5342.0	5986.0
Balance	-1584.0	-1725.0	-2111.0	-2606.0	-3351.0	-4549.0	-4332.0	-3762.0	-3669.0	-4290.0	-3417.0	-3375.0	-3237.0	-3322.0	-3568.0
2. Korea															
Export	1573.5	2887.3	4164.3	4494.7	4810.8	5885.3	6795.4	6597.5	6597.2	5870.5	7259.3	9244.6	10223.4	10961.6	11823.6
Import	1180.8	1979.9	3040.6	3342.5	3850.6	4269.4	4044.4	4061.6	4143.4	4086.6	4598.5	5417.9	6880.4	9474.3	11315.2
Balance	392.7	907.4	1123.7	1152.2	960.2	1615.9	2751.0	2535.9	2453.8	1783.9	2640.8	3826.7	3343.0	1487.3	508.4
3. Malaysia															
Export	451.0	555.0	702.0	875.0	1216.0	1412.0	1683.0	1973.0	2046.0	2052.0	2090.0	2446.0	2608.0	3155.0	4240.0
Import	863.0	1085.0	1401.0	2184.0	2816.0	3007.0	3351.0	4080.0	4419.0	4049.0	3715.0	3869.0	4579.0	5169.0	6082.0
Balance	-412.0	-532.0	-699.0	-1309.0	-1599.0	-1595.0	-1668.0	-2107.0	-2373.0	-1997.0	-1625.0	-1423.0	-1971.0	-2014.0	-1842.0
4. Myanmar															
Export	23.4	23.1	19.9	41.5	50.8	41.5	50.7	43.2	40.8	46.9	54.0	53.5	46.9	130.3	163.4
Import	26.9	25.9	40.7	52.8	60.2	66.8	64.5	59.5	45.6	61.7	44.4	41.7	55.8	52.2	212.4
Balance	-3.5	-2.8	-20.8	-11.3	-9.4	-25.3	-13.8	-16.3	-4.8	-14.8	9.6	11.8	11.1	78.1	-49.0
5. Nepal															
Export	55.0	68.0	83.0	111.0	129.0	160.0	165.0	168.0	162.0	148.0	174.0	211.0	213.0	220.0	201.0
Import	37.0	34.0	43.0	54.0	68.0	77.0	68.0	62.0	73.0	87.0	94.0	102.0	116.0	114.0	122.0
Balance	18.0	34.0	40.0	57.0	61.0	83.0	95.0	106.0	89.0	61.0	80.0	109.0	97.0	106.0	79.0
6. Philippines															
Export	744.0	946.0	1303.0	1442.0	1881.0	2372.0	2014.0	2732.0	2301.0	2929.0	3556.0	3154.0	3287.0	4227.0	4447.0
Import	736.0	861.0	1094.0	1187.0	1448.0	1641.0	1831.0	1720.0	1090.0	894.0	850.0	1158.0	1318.0	1568.0	1766.0
Balance	8.0	85.0	209.0	255.0	433.0	731.0	783.0	1012.0	1211.0	2035.0	2706.0	1996.0	1969.0	2659.0	2681.0
7. Singapore															
Export	2799.8	3094.3	3664.0	4412.8	6085.4	8612.5	9709.3	9297.5	7581.8	6383.2	6219.9	7447.2	9371.9	11742.0	15702.7
Import	1054.1	1277.5	1547.4	2050.0	2911.7	3254.0	3612.7	3781.4	4023.4	3975.9	4165.4	5015.6	6226.9	7294.2	9262.1
Balance	1745.7	1816.8	2116.6	2392.8	3173.7	5358.5	6096.6	5516.1	3558.4	2407.3	2054.5	2431.6	3145.0	4447.8	6446.6
8. Sri Lanka															
Export	72.1	89.6	104.3	152.7	231.7	279.8	290.7	296.5	278.7	245.3	310.8	328.3	342.6	346.5	441.6
Import	38.7	39.7	81.5	89.8	153.6	178.5	211.8	219.9	213.1	252.8	301.7	325.9	330.7	343.0	373.2
Balance	33.4	49.9	22.8	62.9	78.1	101.3	78.9	76.6	65.6	-7.5	9.1	2.4	11.9	3.5	72.4
9. Thailand															
Export	542.3	586.8	922.7	1221.8	1865.6	2087.1	2331.6	2691.7	2857.1	2920.0	3099.0	3913.1	5580.1	6407.0	7398.5
Import	775.1	859.4	1006.5	1329.3	1649.8	1845.4	1703.6	1940.3	1966.3	1864.9	1881.6	2459.4	3641.7	4626.9	6501.5
Balance	-232.8	-272.6	-83.8	-107.5	215.8	241.7	628.0	742.4	890.8	1055.1	1217.4	1453.7	1938.4	1780.1	897.0

Sources: Country sources.

Review of the Financial, Economic and Social Conditions, various issues for Myanmar.

Appendix Table 1.11

THE RATIO OF NON-FACTOR SERVICES TO TOTAL TRADE (GOODS PLUS SERVICES)

(Percentage)

	1976		1980		1985		1990	
	Exports	Imports	Exports	Imports	Exports	Imports	Exports	Imports
Indonesia	1.6	17.6	1.2	17.6	4.0	23.0	8.0	17.9
Korea	16.6	11.7	21.3	13.6	17.7	11.8	15.3	14.2
Malaysia	7.7	16.4	8.2	18.6	11.5	22.0	12.2	16.6
Myanmar	11.1	11.1	10.6	8.6	15.0	10.5	33.2	25.0
Nepal	34.0	18.0	53.4	18.3	48.1	16.5	49.3	15.7
Philippines	21.6	15.4	23.5	14.0	37.0	10.6	34.1	10.7
Singapore	29.8	10.6	24.1	10.9	21.5	13.5	21.7	13.3
Sri Lanka	11.4	5.5	17.3	6.7	14.9	10.1	17.6	11.3
Thailand	14.6	18.5	21.8	15.2	28.5	15.7	23.6	16.8

Sources: Country sources.

Review of the Financial, Economic and Social Conditions, various issues for Myanmar.

Part II

COUNTRY CHAPTERS:

INDONESIA

KOREA

MALAYSIA

NEPAL

PHILIPPINES

SINGAPORE

SRI LANKA

THAILAND

Chapter 2

TRADE IN SERVICES IN INDONESIA

by
Mulyanto
Wibisono

I. Introduction

Due to the heterogeneous nature of services, and many different ways and means by which services can be provided to consumers, it is difficult to get a single definition of trade in services that is generally used. To simplify problems then, it is decided to use the Balance of Payments Manual (4th edition, 1977) of the International Monetary Fund (IMF) as the reference of trade in services.

The role of services is becoming more and more important as it is required to support developments in production activity and trade of goods. Furthermore, the role of services can be analysed from two aspects, namely its contribution to gross domestic product (GDP) and employment, and its contribution to balance of payments (BOP).

This paper, first of all will discuss the role of trade in services in gross domestic product, then move to international trade with more in-depth analysis. For that purpose, it is necessary to analyse the problems within Indonesia's services account that experienced persistent deficit by examining all services items including the problems in the real sector which relates to services.

After the introduction in Section I, Section II contains an overview of the development of trade in services in Indonesia for the last 15 years (1976-1990). Section III will discuss the identification of current problems and issues on trade in services. Section IV will cover policy measures undertaken to deal with the problems arising out of trade in services. Section V will present the major findings and concluding remarks arising from the study.

II. Overview of the Development of Trade in Services for the Last 15 Years (1976-1990)

2.1 Concepts and Definitions

In general, discussion on services can be approached from two aspects namely its relation to GDP and to the external sector of the economy.

There are many definitions regarding its relation to GDP but for the purpose of discussion, two definitions can be raised.

First, the definition of United Nation System of National Account (SNA)¹ which defines services as activities related to production, and results of activities provided by units outside production related activities.

Second, ILO and OECD² define services which include areas as follows:

- wholesale/retail trade, restaurant and hotel
- transport, storage and communications
- finance, insurance, real estate and company's services
- public administration, defence, communal and private services

Basically, these two definitions are consistent with each other.

With regard to its relation to the external sector of the economy, we would applied the definition formulated in the IMF Balance of Payments Manual. In this definition, the term "services" include services of labor and of financial and nonfinancial assets, of a type that could be offered for sale to a foreigner under market conditions³.

1. IMF Paper, *Questionnaire on Statistics on Trade in Services*.

2. Tucker, Ken; Greg Seow and Mark Sumberg; *Service in ASEAN-Australian Trade*, ASEAN-Australian Joint Research Project, 1983.

3. International Monetary Fund, *Balance of Payments Manual*, 4th edition, 1977.

2.2 Contribution of Trade in Services to the Domestic Economy

In line with the system of national account (SNA) definition, the Indonesian economy can be broadly divided into two groups of sectors, namely goods-producing sector and services-producing sector. Under this classification, agriculture, mining and quarrying, and manufacturing falls into the former while other sectors belong to the latter which includes electricity, gas and water supply; construction; trade, hotels and restaurants; transport and communications; banking and other financial intermediaries; ownership of dwellings; public administration and defence; and other services sector.

Within the services sector, trade, hotels and restaurant is still a dominant sector regarding its contribution to GDP formation. This sector has a relatively stable share during the same period with 16.5 per cent in 1976 and 16.3 per cent in 1990. After that public administration and defence, transport and communications are the second important sector with shares of 7.0 per cent and 4.3 per cent respectively in 1976, then 6.5 per cent and 5.6 per cent in 1990 respectively (Tables 2.1 and 2.2).

This development reflects an important structural change in the Indonesian economy. One of these developments is shown in the significant increase in the composition of the sector's output toward a more balance structure, namely, the increasing role of secondary and tertiary sectors such as the manufacturing and services sectors. On the other hand, the agricultural sector recorded a decreasing share in GDP formation during the period.

In line with the increasing share in GDP, the role of services sector in creating employment for the economy also increased from 29.8 per cent in 1976 to 33.5 per cent in 1990 (Table 2.3). It is true that the agricultural sector remains the biggest sector in providing employment. With the relatively limited room to increase employment opportunities in the primary sector, therefore the emphasis of the development should be directed toward the secondary or tertiary sector, including the services sector.

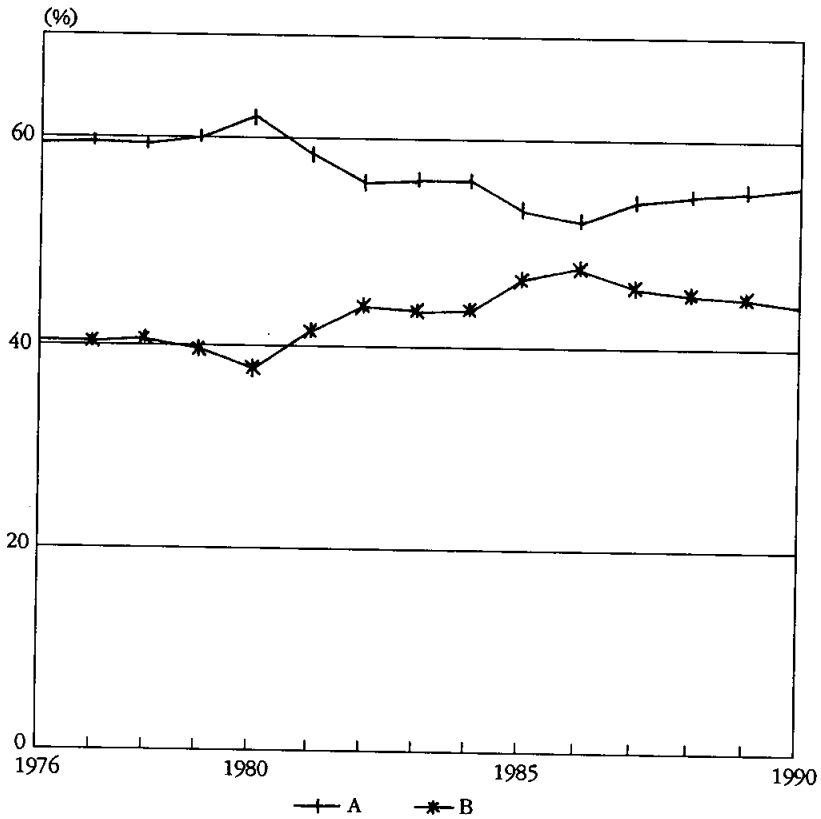
2.3 Contribution of Trade in Services to the External Sector of the Indonesian Economy

Before examining the role of trade in services in the external sector of the Indonesian economy, it is necessary to discuss the general

Chart 2.1

**PERCENTAGE DISTRIBUTION OF GROSS
DOMESTIC PRODUCT**

At Current Prices



A : Goods producing sector

B : Services producing sector

Chart 2.2

PERCENTAGE DISTRIBUTION OF GROSS
DOMESTIC PRODUCT

At Constant 1973 Prices

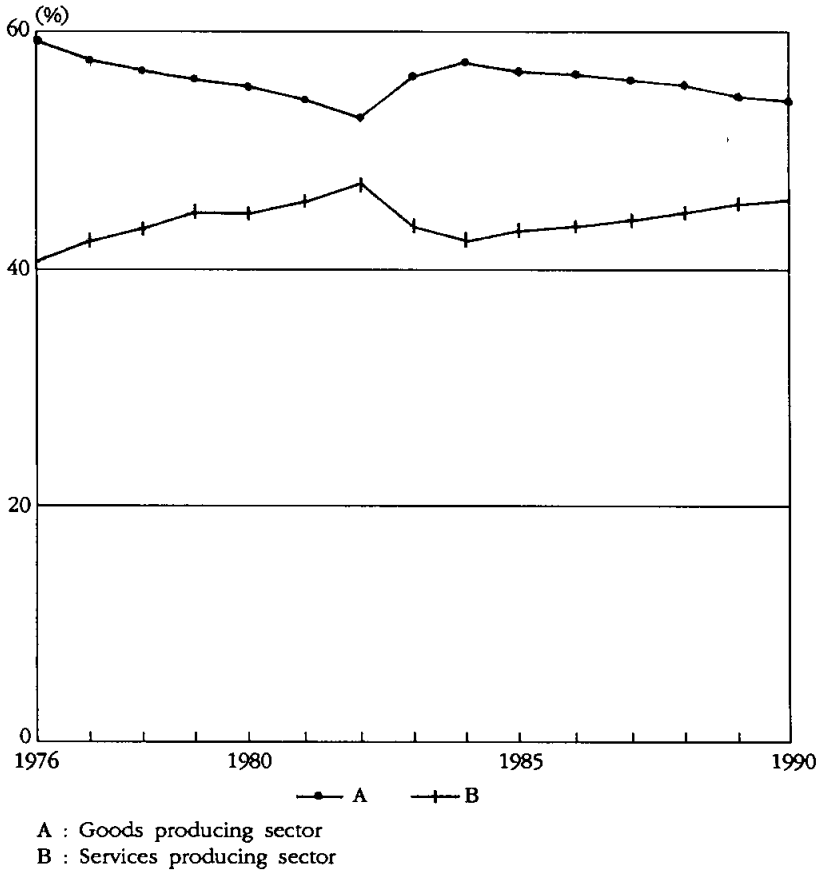


Chart 2.3

DISTRIBUTION OF EMPLOYMENT

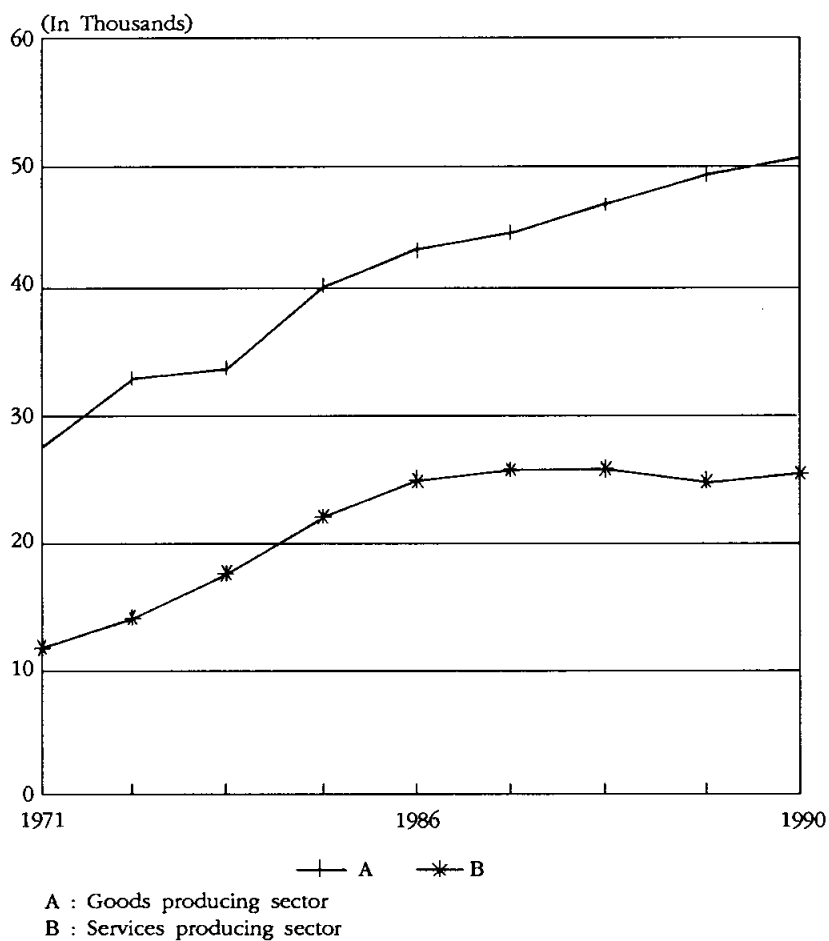


Chart 2.4

DISTRIBUTION OF EMPLOYMENT

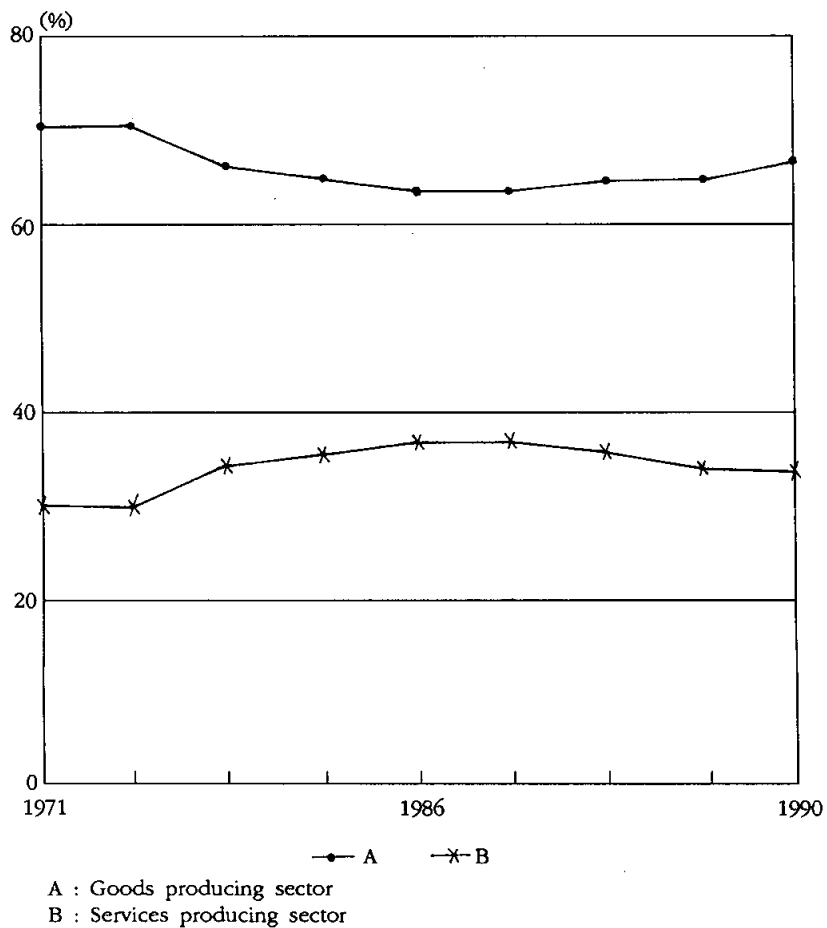


Table 2.1

PERCENTAGE DISTRIBUTION OF GROSS DOMESTIC PRODUCTS BY INDUSTRIAL ORIGIN
(At Current Prices)

	1976	1977	1978	1979	1980	1981	1982	1983	1984	1985	1986	1987	1988	1989	1990
Goods producing sector															
1. Agriculture	59.4	59.5	59.3	60.2	62.1	58.4	55.7	56.2	56.1	53.2	52.2	54.1	54.7	55.1	55.8
2. Mining and Quarrying	31.1	31.1	20.5	28.1	24.6	23.5	24.2	22.9	22.7	23.2	24.3	23.3	24.1	23.6	21.8
3. Manufacturing	18.9	18.9	19.2	21.8	25.7	22.7	19.5	20.7	18.8	14.0	11.2	13.8	12.1	13.2	14.5
	9.4	9.5	10.6	10.3	11.6	12.2	12.0	12.6	14.6	16.0	16.7	17.0	18.5	18.3	19.5
Services producing sector															
4. Electricity, gas and water supply	40.6	40.5	40.7	39.8	37.9	41.6	44.3	43.8	43.9	46.8	47.8	45.9	45.3	44.9	44.2
5. Construction	0.6	0.6	0.5	0.5	0.5	0.5	0.5	0.4	0.4	0.4	0.6	0.6	0.6	0.6	0.6
6. Trade, Hotels and Restaurants	5.3	5.4	5.5	5.6	5.6	6.0	6.0	5.9	5.3	5.4	5.2	4.9	5.1	5.3	5.5
7. Transport and Communications	16.5	15.6	15.2	14.9	14.1	15.1	15.8	14.9	15.0	15.9	16.7	16.9	17.2	16.9	16.3
8. Banking and other financial intermed.	4.3	4.3	4.5	4.4	4.3	4.1	5.1	5.3	5.8	6.3	6.2	6.0	5.7	5.5	5.6
9. Ownership of dwellings	1.3	1.2	1.7	2.1	1.7	2.4	2.9	3.0	3.4	3.6	3.9	3.8	3.7	3.9	4.0
10. Public administration and defence	2.1	2.9	3.0	2.8	2.6	2.7	2.8	3.0	2.9	2.9	2.9	2.7	2.6	2.5	2.5
11. Other services	7.0	7.3	7.4	6.9	6.9	7.2	7.5	7.4	7.2	8.2	8.1	7.1	6.6	6.7	6.5
	3.5	3.2	2.9	2.6	2.2	3.6	3.7	3.9	4.1	4.1	4.2	3.9	3.8	3.5	3.2
Gross Domestic Product	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0

Source: Central Bureau of Statistics.

Table 2.2

PERCENTAGE DISTRIBUTION OF GROSS DOMESTIC PRODUCTS BY INDUSTRIAL ORIGIN
(At Constant 1973 Prices)

	1976	1977	1978	1979	1980	1981	1982	1983	1984	1985	1986	1987	1988	1989	1990
Goods producing sector															
1. Agriculture	59.2	57.6	56.7	56.0	55.3	54.3	52.8	56.3	57.5	56.7	56.4	55.9	55.3	54.5	54.1
2. Mining and Quarrying	36.1	33.6	32.8	32.0	30.7	29.8	29.8	22.9	22.3	22.7	22.0	21.4	21.2	20.5	19.6
3. Manufacturing	11.7	12.1	11.0	10.3	9.3	8.9	7.6	20.7	20.6	18.2	18.1	17.3	15.9	15.6	15.2
	11.4	11.9	12.9	13.7	15.3	15.6	15.4	12.7	14.6	15.8	16.3	17.2	18.2	18.4	19.3
Services producing sector															
4. Electricity, gas and water supply	40.8	42.4	43.3	44.0	44.7	45.7	47.2	43.7	42.5	43.3	43.6	44.1	44.7	45.5	45.9
5. Construction	0.6	0.6	0.6	0.7	0.7	0.8	0.9	0.4	0.4	0.4	0.5	0.5	0.5	0.6	0.6
6. Trade, Hotels and Restaurants	4.7	5.2	5.5	5.5	5.7	6.0	6.2	5.9	5.3	5.3	5.1	5.1	5.2	5.5	5.8
7. Transport and Communications	16.6	16.2	16.0	16.6	16.6	16.9	17.5	14.9	14.2	14.6	14.8	15.2	15.7	16.0	16.1
8. Banking and other financial intermed.	4.2	4.8	5.4	5.5	5.4	5.6	5.8	5.3	5.4	5.3	5.2	5.2	5.2	5.4	5.6
9. Ownership of dwellings	1.4	1.7	1.7	1.8	1.8	1.9	2.1	3.0	3.3	3.5	3.9	3.9	3.8	4.0	4.1
10. Public administration and defence	2.5	2.8	3.0	3.0	3.0	3.0	3.1	3.0	2.9	2.9	2.8	2.8	2.8	2.7	2.6
11. Service	7.3	7.8	8.0	7.9	8.7	8.9	9.0	7.4	7.2	7.6	7.6	7.8	7.9	7.8	7.6
	3.5	3.3	3.1	3.0	2.8	2.6	2.6	3.8	3.8	3.7	3.7	3.6	3.6	3.5	3.5
Gross Domestic Product	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0

Source: Central Bureau of Statistics.

characteristics of Indonesia's balance of payments. During the last fifteen years (1976-1990), the balance of trade continued to register surpluses which fluctuated every year (Table 2.5). During the initial period those surpluses were associated with the substantial amount of oil/gas exports, but for the last four years (1987-1990) the role of non-oil/gas exports has become more important (Table 2.6). Contrary, the services account during that period recorded continuing deficits which for the most part of the period were larger than the trade balance surpluses. As a result the current account during that period was always in deficit, except in 1979 and 1980 when the oil price increased tremendously.

Unlike the current account, the capital account continued to record surpluses reflecting the position of Indonesia as a capital importing country. Taking into consideration the developments in the current account and capital account for the same period, the overall balance of payments experienced surpluses for most of the last fifteen years (1976-1990).

Another characteristic of the Indonesia's balance of payments is the important role of oil as a major export commodity. During the period of 1976-1986, the share of oil in total exports was more than 50 per cent. In 1976 and 1981 it reached the highest levels of 70.6 per cent and 71.6 per cent respectively. However, due to the unfavourable developments in the world oil market in recent years, non-oil exports have become more dominant.

Although the services account always showed deficits on a net basis, the exports of services itself showed a remarkable increase. The export of services improved from \$207 million in 1976 to \$3,388 million in 1990 (Table 2.7). For the first five years (1976-1980) services exports only recorded an amount less than \$1 billion a year, but it has increased rapidly since then. The increase originated mainly from non-factor services exports, especially receipt from tourism. During 1976-1990 period, the ratio of services exports to total exports rose from 2.35 per cent to 11.22 per cent. Meanwhile, the ratio of services exports to merchandise exports during the same period increased from 2.40 per cent to 12.64 per cent (Table 2.8). It is worth noting that the annual average growth of factor services exports reached 21.0 per cent, while for that of non-factor services exports reached 22.6 per cent. In this regard, the ratio of non-factor services exports to total exports and merchandise exports increased from 1.59 per cent and 1.62 per cent

Table 2.3

DISTRIBUTION OF EMPLOYMENT BY SECTOR

(in Thousands)

	1971	1976	1980	1985	1986	1987	1988	1989	1990
Goods producing sector	27,784	33,188	33,901	40,354	43,251	44,541	46,735	48,888	50,431
1. Agriculture	24,772	29,117	28,834	34,142	37,645	38,722	40,475	40,640	41,604
2. Mining and Quarrying	90	113	387	416	n.a.	n.a.	n.a.	554	708
3. Manufacturing	2,832	3,968	4,680	5,796	5,606	5,819	6,260	7,805	8,119
Services producing sector	11,834	14,106	17,652	22,103	25,087	25,862	25,803	24,742	25,457
4. Electricity, gas and water supply	38	27	66	70	n.a.	n.a.	n.a.	103	131
5. Construction	737	815	1,657	2,096	n.a.	n.a.	n.a.	1,895	2,057
6. Trade, Hotels and Restaurants	4,114	6,814	6,679	8,345	9,756	10,461	10,326	10,894	11,069
7. Transport and Communications	916	1,284	1,469	1,959	n.a.	n.a.	n.a.	2,263	2,364
8. Banking and other financial intermed.	95	95	302	251	n.a.	n.a.	n.a.	370	467
9. Ownership of dwellings	0	0	0	0	0	0	0	0	0
10. Public administration and defence	3,923	5,047	7,145	6,317	10,018	11,200	11,161	8,215	8,228
11. Other Services	2,011	26	334	65	5,313	4,201	4,314	2	141
Total	39,628	47,306	51,553	62,467	68,338	70,403	72,538	73,741	75,888

Source: Central Bureau of Statistics.

Table 2.4

DISTRIBUTION OF EMPLOYMENT BY SECTOR

(in Per Cent)

	1971	1976	1980	1985	1986	1987	1988	1989	1990
Goods producing sector	70.1	70.2	85.8	64.6	63.3	63.3	84.4	66.4	66.5
1. Agriculture	62.5	61.6	55.9	54.7	55.1	55.0	55.8	55.1	54.8
2. Mining and Quarrying	0.2	0.2	0.8	0.7	n.a.	n.a.	n.a.	0.8	0.9
3. Manufacturing	7.4	6.4	9.1	9.3	8.2	8.3	8.6	10.6	10.7
Services producing sector	29.9	29.8	34.2	35.4	36.7	36.7	35.6	33.6	33.6
4. Electricity, gas and water supply	0.1	0.1	0.1	0.1	n.a.	n.a.	n.a.	0.1	0.2
5. Construction	1.9	1.7	3.2	3.4	n.a.	n.a.	n.a.	2.6	2.7
6. Trade, Hotels and Restaurants	10.4	14.4	13.0	15.0	14.3	14.9	14.2	14.8	14.6
7. Transport and Communications	2.3	2.7	2.8	3.1	n.a.	n.a.	n.a.	3.1	3.1
8. Banking and other financial intermed.	0.2	0.2	0.6	0.4	n.a.	n.a.	n.a.	0.5	0.6
9. Ownership of dwellings	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
10. Public administration and defence	9.9	10.7	13.9	13.3	14.7	15.9	15.4	12.5	12.2
11. Other Services	5.1	0.1	0.6	0.1	7.8	6.0	5.9	0.0	0.2
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0

Source: Central Bureau of Statistics.

Table 2.5

BALANCE OF PAYMENTS

(Million US Dollars)

	1976	1977	1978	1979	1980	1981	1982	1983	1984	1985	1986	1987	1988	1989	1990
1. Exports, f.o.b.	8,615	10,761	11,020	15,907	22,609	25,665	19,747	18,689	20,754	18,527	14,396	17,206	19,509	22,974	26,807
2. Imports, l.o.b.	(6,819)	(7,473)	(6,382)	(9,946)	(13,456)	(16,542)	(17,854)	(17,726)	(15,047)	(12,705)	(11,938)	(12,532)	(13,831)	(16,310)	(21,455)
3. Trade balance (1-2)	1,796	3,288	2,638	5,961	9,153	7,123	1,893	963	5,707	5,822	2,458	4,674	5,678	6,664	5,352
4. Services account	(2,747)	(3,360)	(4,072)	(5,009)	(6,399)	(7,822)	(7,351)	(7,405)	(7,877)	(7,772)	(6,557)	(6,943)	(7,230)	(7,944)	(8,592)
5. Current account (3-4)	(951)	(72)	(1,434)	952	2,754	(499)	(5,458)	(6,442)	(1,970)	(1,950)	(4,099)	(2,269)	(1,552)	(1,280)	(3,240)
6. Special Drawing Rights	0	0	0	64	85	62	0	0	0	0	0	0	0	0	0
7. Capital Account (net)	1,869	1,325	1,824	1,114	1,574	2,111	5,756	6,602	3,622	1,807	4,365	3,652	2,372	3,090	4,746
a. Official (net)	1,632	1,397	1,491	1,725	2,204	1,963	4,117	4,776	2,885	1,739	3,074	2,104	1,965	2,776	633
- inflows	1,743	1,933	2,221	2,446	2,828	2,729	5,030	5,760	4,058	3,228	5,070	4,890	5,512	6,519	4,536
- outflows	(111)	(536)	(730)	(721)	(624)	(766)	(913)	(984)	(1,193)	(1,489)	(1,996)	(2,786)	(3,547)	(3,743)	(3,903)
b. Private (net)	237	(72)	333	(611)	(630)	148	1,639	1,826	757	68	1,291	1,548	407	314	4,113
a. Foreign Dir. inv.	370	233	272	227	180	133	225	292	222	308	258	385	576	682	1,092
b. Others	(133)	(305)	61	(838)	(810)	15	1,414	1,534	535	(240)	1,033	1,163	(169)	(368)	3,021
8. Total (5+6+7)	918	1,253	390	2,130	4,393	1,674	298	160	1,652	(143)	266	1,383	820	1,810	1,506
9. Errors & Omissions	(182)	(55)	(233)	(386)	(2,057)	(2,069)	(2,229)	494	(709)	238	(810)	(173)	(1,141)	(1,439)	(593)
10. Monetary Movements	(736)	(1,198)	(157)	(1,564)	(2,336)	395	1,931	(654)	(943)	(95)	544	(1,210)	(321)	(371)	(2,099)
Official Reserves	1,225	2,423	2,580	4,144	6,480	6,085	4,154	4,806	5,751	5,846	5,302	6,512	6,191	6,562	8,661

Chart 2.5
BALANCE OF PAYMENTS

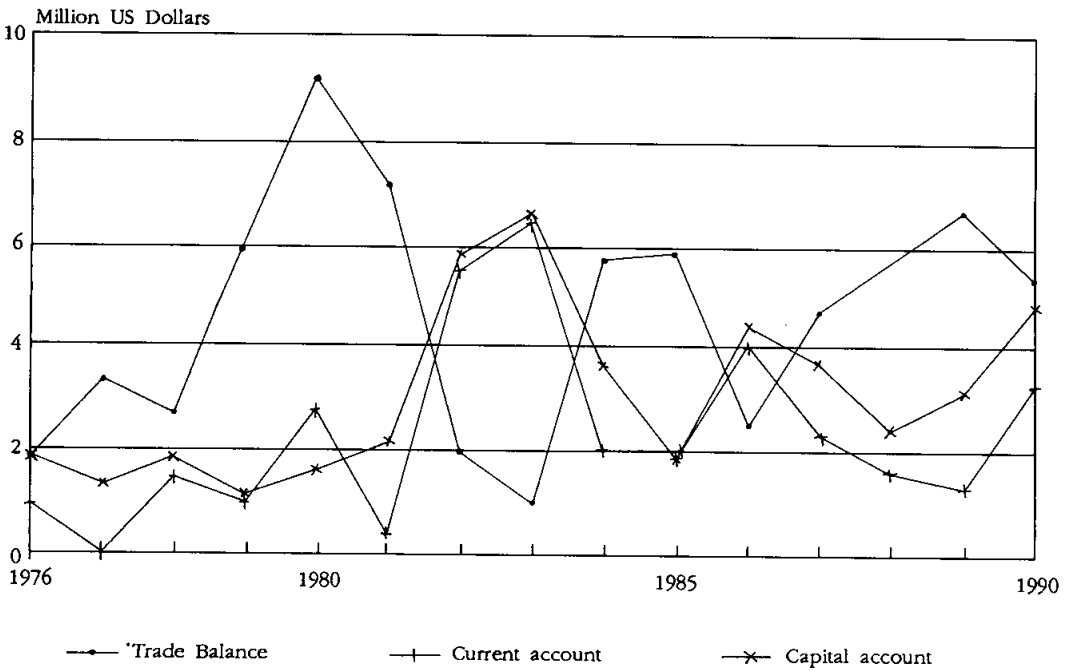


Chart 2.6
GOODS EXPORTS

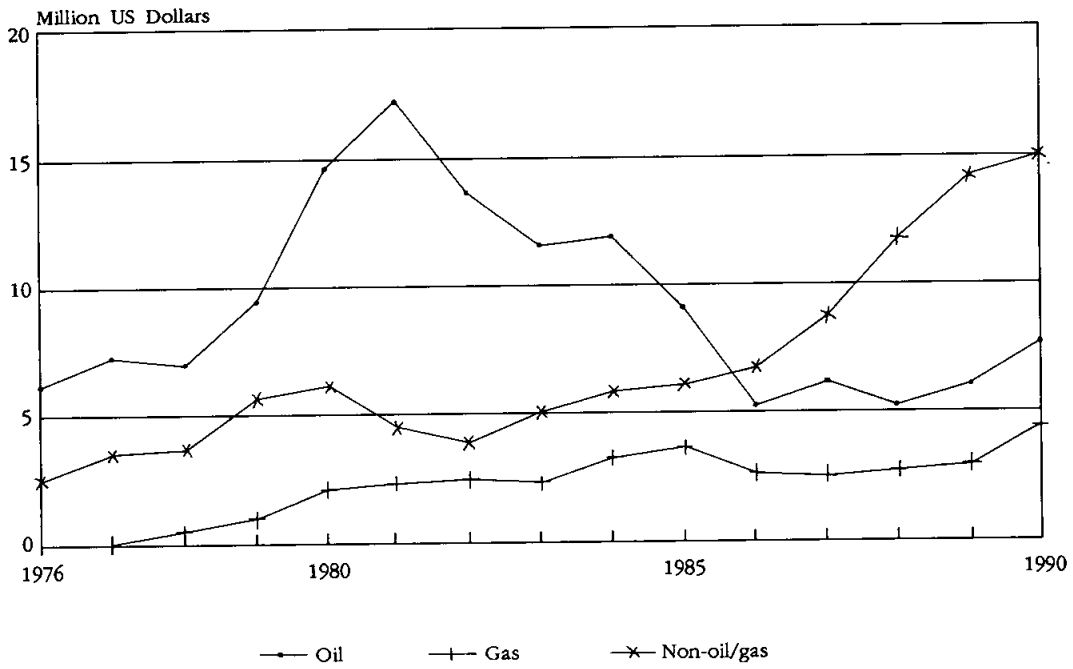


Chart 2.7
EXPORTS OF GOODS AND SERVICES

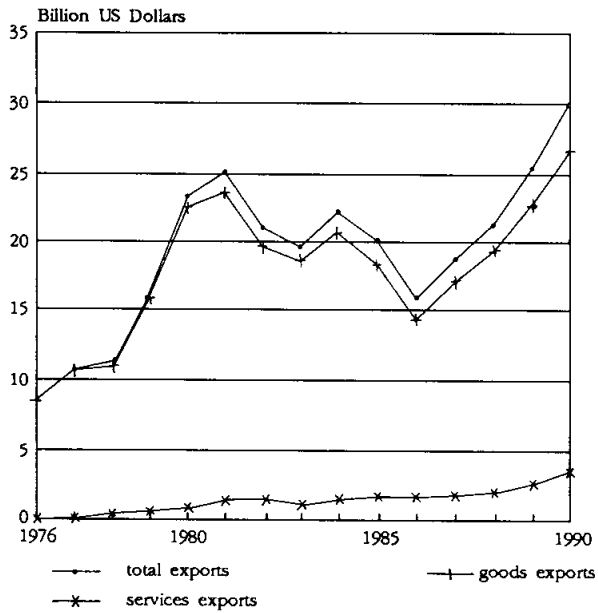


Chart 2.8
IMPORTS OF GOODS AND SERVICES

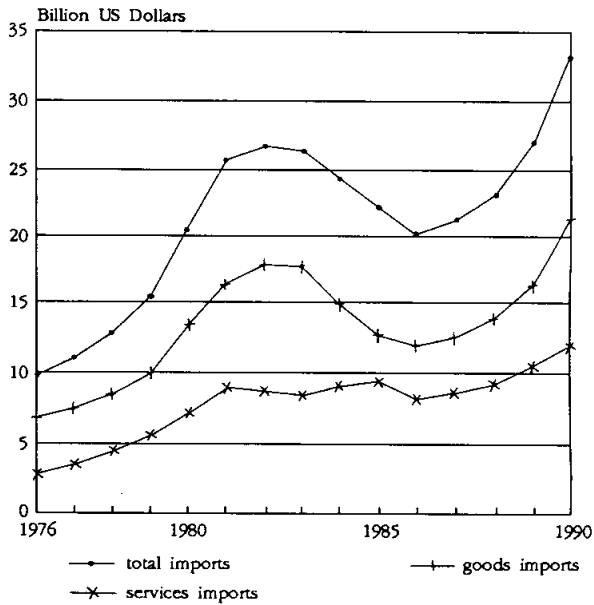


Table 2.6

GOODS EXPORTS

(Million US Dollars)

	1976	1977	1978	1979	1980	1981	1982	1983	1984	1985	1986	1987	1988	1989	1990
1. Exports, f.o.b.	6,615	10,761	11,020	15,907	22,609	23,665	19,747	18,689	20,754	18,527	14,396	17,206	19,509	22,974	26,807
a. oil	6,081	7,177	6,900	9,347	14,461	16,955	13,459	11,413	11,755	8,977	5,164	6,110	5,131	6,005	7,589
(% share)	70.6	66.7	62.6	56.6	64.0	71.6	68.2	61.1	56.6	48.5	35.9	35.5	26.3	26.1	28.3
b. gas	0	73	461	981	2,069	2,279	2,410	2,283	3,224	3,572	2,576	2,461	2,701	2,909	4,342
(% share)	0.0	0.7	4.2	6.2	8.2	9.6	12.2	12.2	15.5	19.3	17.9	14.3	13.8	12.7	16.2
c. non-oil/gas	2,534	3,511	3,659	5,579	6,079	4,431	3,678	4,993	5,775	5,978	6,656	8,635	11,677	14,060	14,876
(% share)	29.4	32.6	33.2	35.1	26.9	16.7	19.6	26.7	27.8	32.3	46.2	50.2	59.9	61.2	55.5
- agriculture	2,142	2,981	3,066	4,656	4,729	3,092	2,667	3,392	2,583	2,480	2,806	3,088	3,851	3,617	3,720
- mining	288	353	392	518	763	742	678	773	779	805	738	961	1,388	1,681	1,447
- manufacture	124	177	201	405	587	597	533	828	2,413	2,693	3,112	4,586	6,438	8,762	9,709

respectively in 1976 and further increased to 8.01 per cent and 9.02 per cent in 1990 respectively.

On the other hand, the import of services increased from \$2,954 million in 1976 to \$11,980 million in 1990 with an average annual growth of 10.5 per cent during that period (Table 2.7). The import of non-factor services increased by 9.3 per cent, while the import of factor services increased by 12.0 per cent. The ratio of import of services to total imports increased from 30.23 per cent in 1976 to 35.83 per cent in 1990, and its ratio to merchandise imports during the same period increased from 43.32 per cent to 55.84 per cent (Table 2.8). Most of the increase originated from interest payments.

Since the increase of import of services is higher than that of export of services during the period of 1976-1990, net services showed a deficit of \$2,747 million in 1976 and increased steadily to \$8,592 million in 1990. It could be added that the deficits fluctuated less during the period. The major factors that contributed to the deficit were investment income and freight on imports.

2.4 Trends of Various Components of Services Account

Based on the IMF Balance of Payments Manual, services account consists of freight on imports, other transportation, travel, other services and investment income. From different point of view, services account can be divided into two groups namely factor services and non-factor services. The first four items above could be classified as non-factor services, while investment income is included as factor services. The respective developments of the items during the period of 1976 to 1990 can be explained as follows:

2.4.1 Factor Services

a. Investment Income

This item recorded a deficit during the period of 1976 to 1990, reflecting the economic structure of this country which still needs foreign capital to finance its development. Unlike other components, in terms of data availability, investment income has a more reliable data due to better data sources, among others, foreign exchange record and banking report. The investment income services originate from oil/gas sector and non-oil/gas sector.

Table 2.7
EXPORTS AND IMPORTS OF GOODS AND SERVICES

(Millions US Dollars)

	1976	1977	1978	1979	1980	1981	1982	1983	1984	1985	1986	1987	1988	1989	1990
1. Exports	8,822	10,907	11,386	16,430	23,389	25,025	21,051	19,729	22,156	20,157	16,004	18,877	21,426	25,481	30,195
a. goods	8,615	10,761	11,020	15,907	22,609	23,665	19,747	18,689	20,754	16,527	14,396	17,206	19,509	22,974	26,807
b. services	207	146	366	523	780	1,360	1,304	1,040	1,402	1,630	1,808	1,671	1,917	2,507	3,388
- factor	67	128	179	303	496	1,081	996	641	881	829	803	647	591	687	970
- non-factor	140	16	187	220	284	279	308	399	521	801	805	1,024	1,326	1,620	2,418
2. Imports	(9,773)	(10,979)	(12,820)	(15,478)	(20,635)	(25,524)	(26,509)	(26,171)	(24,126)	(22,107)	(20,103)	(21,146)	(22,978)	(26,761)	(33,435)
a. goods	(6,819)	(7,473)	(8,382)	(9,946)	(13,456)	(16,542)	(17,854)	(17,726)	(15,047)	(12,705)	(11,938)	(12,532)	(13,831)	(16,310)	(21,455)
b. services	(2,954)	(3,506)	(4,438)	(5,532)	(7,179)	(8,982)	(8,655)	(8,445)	(9,079)	(9,402)	(8,165)	(8,614)	(9,147)	(10,451)	(11,980)
- factor	(1,230)	(1,763)	(2,140)	(2,688)	(3,544)	(4,154)	(4,016)	(4,284)	(4,889)	(4,310)	(3,943)	(4,215)	(4,584)	(5,109)	(5,994)
- non-factor	(1,724)	(1,743)	(2,298)	(2,846)	(3,635)	(4,828)	(4,639)	(4,161)	(4,190)	(5,092)	(4,222)	(4,399)	(4,583)	(5,342)	(5,986)
3. Current account	(951)	(72)	(1,434)	952	2,754	(499)	(6,458)	(6,442)	(1,970)	(1,950)	(4,099)	(2,269)	(1,552)	(1,280)	(3,240)
a. balance of goods	1,796	3,288	2,638	5,961	9,153	(7,123)	1,893	963	5,707	5,822	2,458	4,674	5,678	6,664	5,352
b. balance of services	(2,747)	(3,360)	(4,072)	(5,009)	(6,399)	(7,622)	(7,351)	(7,403)	(7,677)	(7,772)	(6,557)	(6,943)	(7,230)	(7,944)	(8,592)
- factor	(1,163)	(1,635)	(1,961)	(2,383)	(3,048)	(3,073)	(3,020)	(3,643)	(4,008)	(3,481)	(3,140)	(3,568)	(3,993)	(4,422)	(5,024)
- non-factor	(1,584)	(1,725)	(2,111)	(2,626)	(3,351)	(4,549)	(4,331)	(3,762)	(3,669)	(4,291)	(3,417)	(3,375)	(3,237)	(3,522)	(3,566)

Table 2.8
RATIO OF EXPORTS AND IMPORTS OF SERVICES

(in Per cent)

	1976	1977	1978	1979	1980	1981	1982	1983	1984	1985	1986	1987	1988	1989	1990
1. Services exports to total exports	2.35	1.34	3.21	3.18	3.33	5.43	6.19	5.27	6.33	8.09	10.05	8.85	8.95	9.84	11.22
- Factor Services	0.76	1.18	1.57	1.84	2.12	4.32	4.73	3.25	3.96	4.11	5.02	3.43	2.76	2.70	3.21
- Non-Factor Services	1.59	0.13	1.64	1.34	1.21	1.11	1.46	2.02	2.35	3.98	5.03	5.42	6.19	7.14	8.01
2. Services exports to goods exports	2.40	1.36	3.32	3.29	3.45	5.75	6.80	5.56	6.76	8.80	11.17	9.71	9.83	10.91	12.64
- Factor Services	0.78	1.19	1.62	1.90	2.19	4.57	5.04	3.43	4.24	4.47	5.58	3.76	3.03	2.99	3.62
- Non-Factor Services	1.62	0.19	1.70	1.39	1.26	1.18	1.56	2.13	2.51	4.33	5.59	5.95	6.80	7.92	9.02
3. Services imports to total imports	30.23	31.93	34.62	35.74	34.79	35.19	32.65	32.27	37.63	42.53	40.62	40.74	39.81	39.05	35.83
- Factor Services	12.59	16.06	16.69	17.35	17.17	16.27	15.15	16.37	20.26	19.50	19.62	19.94	19.95	19.09	17.93
- Non-Factor Services	17.64	15.87	17.93	16.39	17.62	16.92	17.50	15.90	17.37	23.03	21.00	20.80	19.66	19.96	17.90
4. Services imports to goods imports	43.32	46.92	52.95	55.62	53.35	54.30	48.48	47.64	60.34	74.00	68.40	68.74	66.13	64.08	55.84
- Factor Services	16.04	23.59	25.53	27.01	26.34	25.11	22.49	24.17	32.49	33.92	33.03	33.64	33.14	31.32	27.94
- Non-Factor Services	25.28	23.32	27.42	26.61	27.01	29.19	25.99	23.47	27.85	40.08	35.37	35.10	32.99	32.75	27.90

Investment income from oil/gas sector, covers payment of contractors' share for oil/gas companies. The data are obtained regularly from related institutions and it is also considered reliable. Development in investment income is closely related to the development in oil price. In 1976, payments on investment income amounted to \$527 million and has increased annually reaching \$2,432 million in 1981 and thereafter it remained relatively stable up to 1984. In the following years, the figures decreased continuously reaching \$1,158 million in 1988 due to the lower oil exports' price. However, in 1989 and 1990, payments on investment income rebounded in line with the improvement in oil exports, reaching \$1,631 and \$2,007 million, respectively.

For the non-oil/gas sector, investment income includes all interest earnings from investment of banks' financial assets abroad (Bank Indonesia and deposit money banks), interest payments on public debt, state as well as private enterprises, and profit transfer by foreign banks and other foreign companies.

Interest receipt during the period of 1976-1982 increased from \$67 million to \$986 million or grew by 56.5 per cent annually. In 1983 the interest receipt decreased to \$596 million, but rose by 4.4 per cent annually in the following years reaching \$804 million in 1990.

Payments on investment income from non-oil/gas sector mainly consist of interest payments on debts of the government and state enterprises. The main factors that affected the steady increases in interest payments are the composition of the debt and the outstanding debts. The composition of the debt is characterized by a relatively high portion of non-US dollar currencies. For the government's and state enterprises' debt, around half of that were denominated in the Japanese yen. As a consequence, the depreciation of the US dollar in the past brought about a negative impact as reflected in the increase in interest payments during the period. For the last fifteen years, interest payments has increased significantly from \$465 million in 1976 to \$3,744 million in 1990 or increased by 16.1 per cent annually. For the last two years, however, the interest payments by the private sector has also shown a remarkable increase.

Meanwhile, development in profit transfer is closely related to the number of companies and their preference in treating their profit which

among others are influenced by investment climate and measures taken by the government. For the first five years, those companies tend to transfer most of their profit abroad, which was shown partly by an increasing trend from \$238 million in 1976 to \$610 million in 1981 or has grown by 20.7 per cent annually. During the following years, however, those companies switched its policy by reinvesting their profits in Indonesia, in line with the conducive investment climate due to deregulation measures taken by the government. This change was reflected by a decreasing trend in profit transfer from \$524 million in 1982 to \$243 million in 1990 or a decline by 9.2 per cent annually.

b. Workers Remittance

This item consists of the amount of money sent by Indonesian working in the Middle East. In the initial period (1976-1981) there was a paucity of data and, it has played an insignificant role in foreign exchange inflow. In the following years (1982-1990), however, this item grew at an average rate of 42.1 per cent annually reaching \$166 million in 1990.

2.4.2 Non-Factor Services

a. Freight or shipment

This component recorded a deficit due to the lack of supply and quality of domestic vessels engage in international trade, besides the tough competition between the national and foreign companies in transportation sectors. From 1976 through 1990, payment on freight rose from \$890 million to \$2,343 million, or increased by 7.2 per cent annually. In line with the developments in imports, this payment increased yearly except for 1984 through 1986, it then increased sharply in 1989 and 1990 as high as 18.0 per cent and 32.2 per cent reaching \$1,772 million and \$2,343 million, respectively (Table 2.9 and 2.10).

b. Other Transportation

This transaction includes charter hire, hire purchase, and vessels repairs and docking. For the last fifteen years, the payment on this services account recorded a tremendous increase from only \$106 million in 1976 to \$616 million in 1990. It increased continuously since 1976 through 1981 reaching \$413 million, then went down during 1982

Table 2.9
COMPONENTS OF NON-FACTOR SERVICES EXPORT

(Million US Dollars)

	1976	1977	1978	1979	1980	1981	1982	1983	1984	1985	1986	1987	1988	1989	1990
Shipment (% of total)	n.a. n.a.	n.a. n.a.	n.a. n.a.	n.a. n.a.	n.a. n.a.	n.a. n.a.	n.a. n.a.	n.a. n.a.	n.a. n.a.	n.a. n.a.	n.a. n.a.	n.a. n.a.	n.a. n.a.	n.a. n.a.	n.a. n.a.
Other transportations (% of total)	140 (100)	18 (18)	25 (13.4)	53 (24.1)	74 (26.1)	51 (18.3)	14 (4.5)	3 (0.7)	61 (11.7)	253 (31.5)	158 (19.6)	100 (9.7)	43 (3.2)	192 (10.5)	265 (11.0)
Travel (% of total)	n.a. n.a.	n.a. n.a.	162 (86.6)	167 (75.9)	210 (73.9)	228 (81.7)	294 (95.5)	396 (99.3)	460 (88.3)	548 (68.5)	647 (80.4)	924 (90.3)	1,283 (96.8)	1,628 (89.5)	2,153 (89.0)
Other private services (% of total)	n.a. n.a.	n.a. n.a.	n.a. n.a.	n.a. n.a.	n.a. n.a.	n.a. n.a.	n.a. n.a.	n.a. n.a.	n.a. n.a.	n.a. n.a.	n.a. n.a.	n.a. n.a.	n.a. n.a.	n.a. n.a.	n.a. n.a.
Government services (% of total)	n.a. n.a.	n.a. n.a.	n.a. n.a.	n.a. n.a.	n.a. n.a.	n.a. n.a.	n.a. n.a.	n.a. n.a.	n.a. n.a.	n.a. n.a.	n.a. n.a.	n.a. n.a.	n.a. n.a.	n.a. n.a.	n.a. n.a.
TOTAL	140 (100.0)	18 (100.0)	187 (100.0)	220 (100.0)	284 (100.0)	279 (100.0)	308 (100.0)	399 (100.0)	521 (100.0)	801 (100.0)	805 (100.0)	1,024 (100.0)	1,326 (100.0)	1,820 (100.0)	2,418 (100.0)

Table 2.10
COMPONENTS OF NON-FACTOR SERVICES IMPORT

(Million US Dollars)

	1976	1977	1978	1979	1980	1981	1982	1983	1984	1985	1986	1987	1988	1989	1990
Shipment (% of total)	890 (51.6)	983 (56.4)	1,003 (43.6)	1,155 (40.6)	1,558 (42.9)	1,903 (39.4)	2,053 (44.2)	2,046 (49.2)	1,648 (39.3)	1,392 (27.3)	1,290 (30.6)	1,354 (30.8)	1,502 (32.9)	1,772 (33.2)	2,343 (39.1)
Other transportations (% of total)	106 (6.1)	122 (7.0)	152 (6.6)	162 (5.7)	336 (9.2)	413 (8.6)	291 (6.3)	250 (6.0)	313 (7.5)	281 (5.5)	241 (5.7)	215 (4.9)	270 (5.9)	432 (8.1)	616 (10.3)
Travel (% of total)	95 (5.6)	81 (5.2)	287 (12.5)	323 (11.3)	447 (12.3)	596 (12.3)	576 (12.4)	522 (12.5)	532 (12.7)	576 (11.3)	490 (11.8)	447 (10.2)	477 (10.5)	757 (14.2)	814 (13.6)
Other private services (% of total)	633 (36.7)	547 (31.4)	856 (37.3)	1,206 (42.4)	1,294 (35.6)	1,916 (39.7)	1,720 (37.1)	1,343 (32.3)	1,697 (40.5)	2,842 (55.8)	2,201 (52.1)	2,383 (54.1)	2,314 (50.7)	2,381 (44.5)	2,213 (37.0)
Government services (% of total)	n.a. n.a.	n.a. n.a.	n.a. n.a.	n.a. n.a.	n.a. n.a.	n.a. n.a.	n.a. n.a.	n.a. n.a.	n.a. n.a.	n.a. n.a.	n.a. n.a.	n.a. n.a.	n.a. n.a.	n.a. n.a.	n.a. n.a.
TOTAL	1,724 (100.0)	1,743 (100.0)	2,298 (100.0)	2,846 (100.0)	3,635 (100.0)	4,828 (100.0)	4,639 (100.0)	4,161 (100.0)	4,190 (100.0)	5,091 (100.0)	4,222 (100.0)	4,399 (100.0)	4,563 (100.0)	5,342 (100.0)	5,986 (100.0)

till 1988 reaching \$270 million. For the last two years, it increased significantly by 60 per cent and 43 per cent reaching \$432 and \$616 million respectively. In contrast, receipt on other transportation deteriorated significantly during 1976 through 1983 and during 1985 through 1988. However, it recovered during the last two years of observation, reaching \$192 million and \$265 million respectively, although it had not shown a significant improvement compared to the receipt of \$253 million in 1985. These figures indicated the lack of an adequate domestic services for international transportation equipment. As a result, net of other transportation services account has always recorded a deficit during the period of study.

c. Travel

This component recorded an interesting development for the last fifteen years. During the initial period of observation, this services account recorded a deficit of \$95 million, then it increased to \$368 million in 1981. This deficit decreased in the years thereafter to \$282 million in 1982, then further to \$28 million in 1985. It was important to note that since 1986, the travel account recorded a surplus of \$157 million and it increased yearly reaching \$1,339 million in 1990. The significant development of this account is mainly associated with the contribution of the tourism sector. In 1978 receipt from tourism amounted to \$162 million, and it has a consistent development in the following years. With an average annual growth of 24.1 per cent, the tourism sector receipt reached \$2,153 million in 1990.

2.5 Determinants of Comparative Advantage

Some determinants of comparative advantage in trade in services can be mentioned as follows:

a. Foreign Exchange System

The adoption of a free foreign exchange system is one of the variables that makes every service transaction easier between two transactors.

b. Human Resources Availability

The existence of a large and rapid growth of Indonesia's labor force combined with relatively low wages is a valuable source to further develop.

c. Technology and Economies of Scale

In the world economy, the role of telecommunication is very important in both the developed and developing countries. Considering the importance of a telecommunication media, the Government launched the "PALAPA" satellite to serve the country that consists of thousand of islands. On a regional basis, the utilization of this satellite by the other countries surrounding Indonesia is also very plausible.

d. Macro Economic Stability

A series of deregulation packages that were announced by the government tend to reduce regulations in order to induce competition and to promote the private sector. By implementing such policy consistently will, in turn, enhance efficiency and competitiveness.

e. Resource-Based Condition

Indonesia with its strategic location between two oceans (Indonesia and Pacific) and two continents (Asia and Australia) has an attractive panorama among the tropical countries. In addition, a moderate climate and many varieties of flora and fauna, besides its rich ethnic cultures make Indonesia one of many international tourist destination.

III. Identification of Current Problems and Issues on Trade in Services

The accumulating services account deficit are due to factors, among others, the disadvantage condition of resident's services transaction regarding expertise, quality, experience and management. Besides that, the prevailing structural problems and the inferior position relating to institution and policies in conducting transaction with non-resident also has an impact on the deficit of services account. Several problems and issues can be raised as follows:

a. Structural Problems

The government has continuously attempt to find foreign financial sources to finance the country's development, it is then plausible that

investment income payments would be increased proportionally. Besides that, by adopting a free foreign exchange system, it is difficult to monitor the developments of investment abroad by Indonesian resident, either in the form of portfolio investment or foreign direct investment. These kind of investments will, automatically increase investment income inflow.

b. Market Access

To a certain extent, Indonesia has a large and rapid growth of labor force. In order to optimize the utilization of such production factor, it is necessary to improve the movement of labor across the country.

On the other hand, as a developing country, market access will be a crucial problem for Indonesia since the services sector is still in the process of development. The country needs to evaluate the capability of its services sector to compete with the foreigners in trade in services. With regard to the multilateral trade negotiation, Indonesia hopes that the market access in the services sector to be considered carefully for the benefit of the Indonesian economy. Liberalization in trade in services should be viewed in terms of its cost and benefit.

Deregulation in the financial services sector by the government in the last few years showed that Indonesia is gradually opening its services sector toward the foreigners. In this connection, foreign banks which are currently operating in Jakarta are allowed to open branches in 8 other cities in Indonesia. Besides that, it is possible to establish a joint-venture bank between the foreign banks and domestic banks companies.

c. Lack of Data

The difficulties encountered in the preparation of services transaction is mainly related to the absence of a complete and systematic record of that transaction. This was due to inadequate data and information resulting from the limited coverage of data compiled from banks and other related institutions. Besides that, the statistics in services are generally less complete and less reliable than the statistics in goods which are closely related to the absence of official document in trade in services. As generally known, there is a custom document that is being officially used in trade in goods, namely PEB as an exports document and PIUD as an imports document.

d. Restrictions in Trade in Services

For the time being, there is no immediate issue on restrictions in trade in services. In the future, however, some potential issues might appear, and that fact is closely related to the different views in which both the developed and developing countries are concerned with. The developed countries are in favor of trade in service liberalization, meanwhile the developing countries tend to protect this sector.

Basically the government tend to develop its own services industries. However, the presence of transnational corporations is unavoidable in the world economy. The problem is how to minimize a conflicting area between these two industries. In other words, it is necessary to consider carefully a compromising solution so that the domestic services industries can be developed together with foreign services industries.

IV. Policy Measures Undertaken to Deal with the Problems in Trade in Services

Policy measures undertaken in the services sector are expected to provide an accurate data by improving the assumptions that has been made for certain items in the services account. For that reason, some joint-researches have been conducted between the Central Bank and other institutions, such as the Central Bureau of Statistics, Capital Investment Coordinating Board, Ministry of Communication, and the Ministry of Tourism, Post and Telecommunication.

The policies undertaken to reduce the persistent deficit in the services account on the balance of payments are mainly to increase foreign exchange inflow rather than to decrease foreign exchange outflow. To realize that objective, the foreign exchange receipts from both tourism and the Indonesian labor force working abroad would reduce the services account deficit to a certain extent.

On tourism, the Government has undertaken several deregulations measures, among others, December 24, 1987 policy packages. This policy includes the simplification of licensing procedures, the designation of new ports which provide "visa on arrival", and an expansion of the number of tourists' destinations. In addition, the Government has

designated 11 airports and 9 seaports as international ports. Furthermore, the Government promote tourism through representative abroad. In efforts to encourage the growth and development of tourism, the Government declared the year 1991 as Visit Indonesia Year and also programmed a tourism campaign on a nation-wide basis. The Government has also encouraged the private sector to participate in providing facilities for tourism, and for that purpose the Government announced Law no. 9/1990 in Tourism in October 1990.

In connection with the transportation sector, the Government reduced the types of business licences from 5 to 2, namely a business license for domestic and overseas shipping and a business license for traditional shipping. These business licences served as an operating permit and special requirements are needed if the shipping company uses foreign vessels. Furthermore, with this kind of deregulation, the ship-owners can decide their route freely. Besides that, foreign shipping companies are permitted to operate in Indonesian territory by setting up a joint-venture company or appointing national shipping companies as their agents.

Regarding the promotion of Indonesia's labor force overseas (TKI), the Government has increased the requirements for every worker who wants to work abroad. For that purpose, the Government provides training in order to improve the quality/skill of the workers.

In order to encourage the private sector to deal with the world franchise, the Government has sought to register Indonesia's copyright, patent and trademark as another source of foreign exchange. For that purpose, a new official institution was established, namely the Directorate General of Copyright, Patent and Trademark.

Regarding the issues of Uruguay Round, it is necessary to consider cautiously the impact of the decision since Indonesia's services account is currently experiencing persistent deficit. It seems that liberalization in trade in services may cause a deterioration in the services account deficit. Accordingly, as are aware by the other SEACEN countries, the multilateral negotiation within GATT should be taken step by step for the benefit of SEACEN members and developing countries in general due to the relatively weak position of the services sector in these countries.

V. Conclusion

Based on the discussion in this paper, several points can be raised as a conclusion, which, among others:

- (a) For the time being, several kind of transactions in trade in services are available in net figures only. In order to give a clearer perception, it is necessary to provide gross data in the future.
- (b) Persistent deficit in the current account for the last fifteen years (1976-1990) reflects a high dependency on services supplied by non-residents mainly of developed countries. The deficit occurs mainly from the fact that the country still need foreign sources to finance its development. Besides that, a high dependency of the domestic economy on foreign expertise and the services provided by the foreign companies further contributed to the widening of the services account deficit. In reducing the services deficit that are related to the capital account, it is particularly necessary to consider policy measures in a relatively longer time frame.
- (c) Tourism is one of the potential contributor in foreign exchange receipt, therefore policy within this sector should be continuously adopted.
- (d) Due to the relatively weak position of Indonesia's services sector, it seems that globalization may cause an increase in foreign exchange outflow. Therefore, it is necessary to consider carefully every issue regarding the openness of trade in services.

GROSS DOMESTIC PRODUCT (At Current Prices)

(Million US Dollars)

	1976	1977	1978	1979	1980	1981	1982	1983	1984	1985	1986	1987	1988	1989	1990
Goods producing sector															
1. Agriculture	22,157.3	27,282.7	30,117.6	30,953.9	43,062.8	53,797.7	52,448.8	47,907.7	46,931.8	46,183.5	41,402.9	40,945.7	46,012.2	51,475.4	58,827.5
2. Mining and Quarrying	11,595.2	14,230.6	14,978.4	14,437.9	18,008.9	21,685.5	22,768.0	19,444.7	19,797.3	20,154.7	19,226.3	17,653.2	20,300.7	22,056.3	23,339.0
3. Manufacturing	7,640.2	6,674.0	9,733.0	11,202.5	18,619.1	20,924.7	18,370.5	17,630.7	16,421.3	12,149.3	8,892.2	10,468.9	10,163.9	12,311.6	13,792.8
	3,501.9	4,378.1	5,406.2	5,313.5	8,434.8	11,187.5	11,310.3	10,832.3	12,713.2	13,879.5	13,284.4	12,823.6	15,547.6	17,107.5	21,695.7
Services producing sector															
4. Electricity, gas and water supply	15,111.9	18,526.3	20,687.4	20,446.2	27,428.3	38,223.8	41,989.4	37,056.3	38,218.3	40,659.6	37,984.1	34,681.3	38,147.8	42,830.5	48,367.8
5. Construction	236.4	251.5	264.2	238.8	359.1	462.1	514.7	343.6	348.2	354.5	500.3	452.6	514.7	568.9	681.9
6. Trade, Hotels and Restaurants	1,958.1	2,465.8	2,774.3	2,872.4	4,025.8	5,541.0	5,697.3	5,032.0	4,811.8	4,746.5	4,107.8	3,640.8	4,245.9	5,012.3	5,831.9
7. Transport and Communication	6,149.2	7,130.2	7,706.3	7,663.9	10,194.3	13,900.5	15,035.7	12,498.6	13,025.0	13,802.2	13,235.8	12,761.7	14,438.3	16,368.7	18,381.4
8. Banking and other financial intermediaries	1,596.6	1,977.3	2,304.2	2,281.5	3,134.9	3,752.6	4,782.0	4,485.8	4,896.8	5,461.3	4,952.8	4,512.5	4,820.6	5,249.9	5,961.7
9. Ownership of dwellings	497.6	569.6	863.6	1,051.4	1,200.0	2,225.7	2,694.9	2,581.7	2,565.0	3,136.0	3,120.5	2,907.3	3,152.1	3,695.8	4,434.7
10. Public administration and defence	768.4	1,306.5	1,497.8	1,467.3	1,813.4	2,385.3	2,616.7	2,578.3	2,494.2	2,484.3	2,309.6	2,030.6	2,212.6	2,341.9	2,650.8
11. Other services	2,588.7	3,359.5	3,764.5	3,530.3	5,012.4	6,654.3	7,112.8	6,251.7	6,272.7	7,095.0	6,421.9	5,403.2	5,594.4	6,304.2	6,984.2
	1,316.9	1,462.8	1,492.5	1,340.6	1,588.4	3,322.3	3,535.3	3,284.6	3,604.6	3,579.8	3,335.4	2,972.4	3,169.2	3,288.6	3,487.2
Gross Domestic Product	37,260.2	45,809.0	50,805.0	51,400.1	72,491.1	92,021.5	94,438.2	84,964.0	87,150.1	86,843.1	79,387.0	75,627.0	84,160.0	94,305.9	107,395.3

Source: Central Bureau of Statistics.

GROSS DOMESTIC PRODUCT (At Constant 1973 Prices)

(Million US Dollars)

	1976	1977	1978	1979	1980	1981	1982	1983	1984	1985	1986	1987	1988	1989	1990
Goods producing sector															
1. Agriculture	11,628.9	12,310.9	13,058.2	13,729.7	14,853.3	15,759.9	15,687.5	16,252.0	17,819.5	18,635.0	19,603.6	20,569.7	21,039.5	23,186.5	26,120.2
2. Mining and Quarrying	7,093.3	7,183.9	7,553.7	7,844.8	8,252.8	8,659.0	8,842.9	9,266.5	9,656.9	10,067.5	10,327.7	10,549.2	11,065.5	11,410.6	11,797.1
3. Manufacturing	2,294.1	2,578.3	2,527.2	2,522.7	2,493.0	2,576.1	2,644.6	2,304.8	2,469.6	2,215.2	2,335.5	2,341.7	2,274.2	2,364.6	2,724.1
	2,241.5	2,548.7	2,977.3	3,362.2	4,107.5	4,524.8	4,580.0	4,680.7	5,713.0	6,352.3	6,942.4	7,678.8	8,599.8	9,391.1	11,608.0
Services producing sector															
4. Electricity, gas and water supply	8,024.8	9,064.8	9,993.4	10,764.0	12,060.4	13,288.2	14,012.2	14,693.1	15,282.3	15,978.4	17,032.5	18,119.3	19,484.6	21,348.9	23,114.9
5. Construction	111.6	118.1	137.1	165.3	187.7	216.6	254.2	271.8	280.5	312.5	372.0	428.2	475.2	532.8	628.2
6. Trade, Hotels and Restaurants	926.5	1,117.6	1,274.4	1,356.1	1,540.5	1,735.4	1,826.0	1,938.6	1,852.8	1,901.0	1,943.6	2,024.8	2,217.1	2,478.6	2,815.9
7. Transport and Communication	3,254.7	3,465.5	3,687.5	5,040.8	4,462.4	4,922.9	5,201.9	5,398.1	5,583.6	5,861.2	6,334.0	6,786.5	7,401.2	8,192.5	8,824.6
8. Banking and other financial intermediaries	825.5	1,030.4	1,239.0	1,348.9	1,468.4	1,631.1	1,726.7	1,813.3	1,565.8	1,985.3	2,065.5	2,184.8	2,305.8	2,570.8	2,817.1
9. Ownership of dwellings	282.9	364.3	395.6	432.8	500.7	557.6	622.7	666.3	799.0	853.2	983.9	1,033.7	1,059.7	1,211.1	1,371.8
10. Public administration and defence	503.9	607.7	695.0	737.6	809.2	864.3	909.4	965.3	988.4	1,008.4	1,042.9	1,087.5	1,131.6	1,176.8	1,228.2
11. Other services	1,434.9	1,662.2	1,850.4	1,940.0	2,341.4	2,592.3	2,685.5	2,834.2	2,975.6	3,203.1	3,405.1	3,655.2	3,935.9	4,166.7	4,360.7
	684.8	699.0	715.4	732.5	750.1	768.0	765.8	805.5	836.6	853.7	885.5	918.6	958.1	1,017.6	1,068.4
Gross Domestic Product	19,653.7	21,375.7	23,051.6	24,493.7	26,913.7	29,048.1	29,699.7	30,945.1	33,101.8	33,918.6	35,911.3	37,680.2	39,858.3	42,810.1	45,946.0
Statistical Discrepancy	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	(694.8)	(724.8)	(1,008.8)	(1,365.8)	(1,725.3)	(3,298.1)

Source: Central Bureau of Statistics.

GROSS DOMESTIC PRODUCT

(Million US Dollars)

	1976	1977	1978	1979	1980	1981	1982	1983	1984	1985	1986	1987	1988	1989	1990	Average-Annual Growth Rate
At Current Prices																
GDP	37,269.2	43,809.0	50,605.0	51,400.1	72,491.1	92,021.5	84,438.2	84,564.0	87,150.1	86,843.1	79,387.0	75,627.0	84,160.0	94,305.9	107,395.3	-
Growth Rate	22.3	22.9	10.9	1.17	41.1	26.9	2.6	(10.0)	2.6	(0.3)	(8.6)	(4.7)	11.2	12.3	13.4	7.8
Agriculture	11,595.2	14,230.8	14,978.4	14,437.9	18,008.9	21,685.5	22,768.0	19,444.7	19,797.3	20,154.7	19,226.3	17,653.2	20,300.7	22,056.3	23,339.0	5.1
Growth Rate	20.2	22.7	5.2	(3.6)	24.7	20.4	5.0	(14.5)	1.8	1.8	(4.6)	(8.2)	15.0	9.9	4.6	
% of GDP	31.1	31.1	29.5	28.1	24.9	23.6	24.1	22.9	22.7	23.2	24.3	23.3	24.1	23.6	21.8	
Industry	3,501.9	4,378.1	5,406.2	5,313.5	8,434.8	11,187.5	11,310.3	10,832.3	12,713.2	13,879.5	13,284.4	12,823.6	15,547.6	17,107.5	21,605.7	13.9
Growth Rate	29.3	25.0	23.5	(1.7)	58.7	32.6	1.1	(4.2)	17.4	9.2	(4.3)	(3.5)	21.3	10.9	21.3	
% of GDP	9.4	9.6	10.6	10.3	11.6	12.2	12.0	12.7	14.6	16.0	16.7	17.0	18.5	18.3	19.5	
Services	15,111.9	18,526.3	20,667.4	20,446.2	27,428.3	36,223.8	41,989.4	37,056.3	38,218.3	40,653.5	37,975.1	34,731.3	37,849.8	42,830.5	48,567.8	8.7
Growth Rate	24.7	22.6	11.7	(1.2)	34.1	39.4	9.8	(11.7)	3.1	6.4	(6.6)	(8.5)	8.9	12.1	11.5	
% of GDP	40.5	40.4	40.7	39.8	37.9	41.5	44.5	43.6	43.9	46.8	47.8	45.9	45.0	44.9	44.2	
Others	7,060.2	8,674.0	9,733.0	11,202.5	186,619.1	20,924.7	18,370.5	17,630.7	16,421.3	12,149.3	8,892.2	10,466.9	10,163.9	12,311.6	13,792.8	4.9
Growth Rate	17.9	22.8	12.2	15.1	66.2	12.4	(12.2)	(4.0)	(6.8)	(26.0)	(26.8)	17.7	(2.9)	22.9	24.7	
% of GDP	18.0	18.9	19.2	21.8	25.6	22.7	19.4	20.8	18.8	14.0	11.2	13.8	12.0	13.2	14.5	
Per Capita GDP	282.9	345.3	375.9	372.3	505.3	615.9	617.2	543.2	545.2	532.4	476.9	444.8	484.2	531.7	599.3	5.5

At Constant 1973 Prices															Average-Annual Growth Rate	
	1976	1977	1978	1979	1980	1981	1982	1983	1984	1985	1986	1987	1988	1989	1990	
GDP	19,653.8	21,375.7	23,051.6	24,493.7	26,913.7	29,048.1	29,699.7	30,945.1	33,101.9	33,928.6	35,911.3	37,680.2	39,838.3	42,810.1	45,946.0	6.3
Growth Rate	6.9	8.8	7.8	6.3	9.9	7.9	2.2	-1.2	6.9	2.5	5.9	4.9	5.8	7.4	7.3	
Agriculture	7,093.3	7,183.9	7,553.7	7,844.8	8,252.8	8,659.0	8,842.9	9,266.5	9,656.9	10,067.5	10,327.7	10,549.2	11,065.5	11,410.8	11,797.1	3.7
Growth Rate	4.7	1.3	5.1	3.9	5.2	4.9	2.1	-4.8	4.2	4.3	2.6	2.1	4.9	3.2	3.4	
% of GDP	36.1	33.6	32.8	32.0	30.7	29.8	29.8	29.9	29.2	29.7	28.8	30.0	27.7	26.1	25.6	
Industry	2,241.5	2,548.7	2,977.3	3,362.2	4,107.5	4,524.8	4,580.0	4,680.7	5,713.0	6,352.3	6,942.4	7,678.8	8,599.8	9,391.1	11,608.0	12.5
Growth Rate	9.7	13.7	16.8	12.9	22.2	10.2	1.2	2.2	22.0	11.2	9.3	10.6	12.0	9.2	12.3	
% of GDP	11.4	11.9	12.9	13.7	15.3	15.6	15.4	15.2	17.3	18.7	19.3	20.4	21.5	21.9	25.3	
Services	8,021.9	9,064.8	9,933.4	10,764.0	12,060.4	13,288.2	14,012.2	14,693.1	15,282.4	15,978.4	17,032.5	18,119.3	19,484.6	21,348.2	23,114.9	7.8
Growth Rate	5.9	12.9	9.6	8.4	12.0	10.2	5.4	4.9	4.0	0.0	6.7	6.4	7.5	9.5	8.3	
% of GDP	40.8	42.4	43.1	43.9	44.8	45.7	47.2	47.5	46.2	45.1	45.4	45.4	46.9	49.9	50.3	
Others	2,204.2	2,578.3	2,527.2	2,322.7	2,493.0	2,576.1	2,264.6	2,304.8	2,449.6	2,215.2	2,333.5	2,341.7	2,274.2	2,384.6	2,724.1	1.2
Growth Rate	15.0	12.4	(2.0)	(0.2)	(1.2)	3.3	(12.1)	1.8	6.3	(9.6)	5.3	0.4	(2.9)	-4.8	14.2	
% of GDP	11.7	12.0	10.9	10.3	91.0	6.9	7.6	7.4	7.4	6.5	6.5	6.2	5.7	5.6	5.9	
Statistical	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	(694.8)	(724.8)	(1,008.8)	(1,565.8)	(1,725.3)	(3,298.1)	-4
Discrepancy																
% of GDP	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	(2.0)	(2.0)	(2.7)	(3.9)	(4.0)	(7.2)	
Per Capita GDP	149.2	161.1	170.3	177.4	187.6	194.4	194.1	197.9	207.1	208.0	215.7	221.4	230.0	241.7	256.8	

POPULATION, LABOUR FORCE AND EMPLOYMENT

(in Millions)

	1976	1977	1978	1979	1980	1981	1982	1983	1984	1985	1986	1987	1988	1989	1990	Average Annual Growth Rate
Population	131.3	134.0	136.7	139.4	147.5	151.3	154.7	158.1	161.6	164.6	168.3	172.0	175.6	179.1	179.3	2.3
Labour Force	48.4	49.5	53.1	n.a.	n.a.	n.a.	54.0	n.a.	n.a.	63.8	70.2	72.2	74.5	75.9	78.0	3.5
Employed Persons	47.3	n.a.	n.a.	n.a.	51.6	n.a.	n.a.	n.a.	n.a.	62.5	68.3	70.4	72.5	73.7	75.9	3.4
Agriculture Growth Rate	29.1 n.a.	n.a. n.a.	n.a. n.a.	n.a. n.a.	28.8 n.a.	n.a. n.a.	n.a. n.a.	n.a. n.a.	n.a. n.a.	34.1 10.6	37.7 10.6	38.7 2.7	40.5 4.7	40.6 0.2	41.6 2.5	2.6
Industry Growth Rate	4.0 n.a.	n.a. n.a.	n.a. n.a.	n.a. n.a.	4.7 n.a.	n.a. n.a.	n.a. n.a.	n.a. n.a.	n.a. n.a.	5.8 n.a.	5.6 (3.4)	5.8 3.6	6.2 6.9	7.8 25.8	8.1 3.8	5.2
Service Growth Rate	11.1 n.a.	n.a. n.a.	n.a. n.a.	n.a. n.a.	17.7 n.a.	n.a. n.a.	n.a. n.a.	n.a. n.a.	n.a. n.a.	22.1 n.a.	25.1 13.6	25.9 3.2	25.8 (0.3)	24.7 (4.3)	25.5 3.2	6.1

Source: Central Bureau of Statistics.

**GROWTH OF EMPLOYMENT
BY SECTOR**

(in Per Cent)

	1976 */	1980	1985	1990
Goods producing sector	19.4	2.1	19.0	25.0
1. Agriculture	17.5	(1.0)	18.4	21.9
2. Mining and Quarrying	25.6	242.5	7.5	70.2
3. Manufacturing	35.3	17.9	23.8	40.1
Services producing sector	19.2	25.1	25.2	15.2
4. Electricity, gas and water supply	(28.9)	144.4	6.1	87.1
5. Construction	10.6	103.3	26.5	(1.9)
6. Trade, Hotels and Restaurants	65.6	(2.0)	39.9	18.4
7. Transport and Communications	40.2	14.4	33.4	20.7
8. Banking and other financial intermed.	0.0	217.9	(16.9)	86.1
9. Ownership of dwellings				
10. Public administration and defence	28.7	41.6	16.4	11.0
11. Other Services	(98.7)	1,184.6	(80.5)	116.9
Total	19.4	9.0	21.2	21.5

*/ Compared to 1971.

Source: Central Bureau of Statistics.

EXPORTS AND IMPORTS

(Million US Dollars)

	1976	1977	1978	1979	1980	1981	1982	1983	1984	1985	1986	1987	1988	1989	1990
Total Exports (Goods and Services)	8,822	10,907	11,386	16,430	23,389	25,025	21,051	19,729	22,156	20,157	16,004	18,877	21,426	25,481	30,195
Total Imports (Goods and Services)	9,773	10,979	12,820	15,478	20,635	25,524	26,509	26,171	24,126	22,107	20,103	21,146	22,978	26,761	33,435
Balance	(951)	(72)	(1,434)	952	2,754	(499)	(5,458)	(6,442)	(1,970)	(1,950)	(4,099)	(2,269)	(1,552)	(1,280)	(3,240)
Merchandise Exports	8,615	10,761	11,020	15,907	22,609	23,665	19,747	18,689	20,754	18,527	14,396	17,206	19,509	22,974	26,807
Merchandise Imports	6,819	7,473	8,382	9,946	13,456	16,542	17,854	17,726	15,047	12,705	11,938	12,532	13,831	16,310	21,455
Balance	1,796	3,288	2,638	5,461	9,153	7,123	1,893	963	5,707	5,822	2,458	4,674	5,678	6,664	5,352
Total Services Exports (Factor and Non-Factor)	207	146	366	523	780	1,360	1,304	1,040	1,402	1,630	1,608	1,671	1,917	2,507	3,388
Total Services Imports (Factor and Non-Factor)	2,954	3,506	4,438	5,532	7,179	8,982	8,655	8,445	9,079	9,402	8,165	8,614	9,147	10,451	11,980
Balance	(2,747)	(3,360)	(4,072)	(5,009)	(6,399)	(7,622)	(7,351)	(7,405)	(7,677)	(7,772)	(6,557)	(6,943)	(7,230)	(7,944)	(8,592)

SERVICES ACCOUNT

(Million US Dollars)

	1976	1977	1978	1979	1980	1981	1982	1983	1984	1985	1986	1987	1988	1989	1990
A. Factor services															
1. Oil/gas	(1,163)	(1,635)	(1,961)	(2,383)	(3,048)	(3,073)	(3,020)	(3,043)	(4,008)	(3,461)	(3,140)	(3,568)	(3,993)	(4,422)	(5,024)
a. interest	(527)	(812)	(965)	(1,257)	(1,964)	(2,432)	(2,221)	(2,269)	(2,299)	(1,936)	(1,321)	(1,248)	(1,158)	(1,631)	(2,007)
- receipts	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
- payments	(527)	(812)	(965)	(1,257)	(1,964)	(2,432)	(2,221)	(2,269)	(2,299)	(1,936)	(1,321)	(1,248)	(1,158)	(1,631)	(2,007)
2. Non-oil/gas	(636)	(823)	(996)	(1,126)	(1,084)	(641)	(799)	(1,374)	(1,709)	(1,545)	(1,819)	(2,320)	(2,835)	(2,791)	(3,017)
a. interest	(398)	(449)	(553)	(621)	(525)	(31)	(285)	(883)	(1,265)	(1,372)	(1,743)	(2,237)	(2,725)	(2,694)	(2,940)
- receipts	67	128	179	403	496	1081	986	596	828	768	732	561	492	562	804
- payments	(465)	(577)	(732)	(924)	(1,021)	(1,112)	(1,271)	(1,479)	(2,093)	(2,140)	(2,475)	(2,798)	(3,217)	(3,256)	(3,744)
b. others investment income	(238)	(374)	(443)	(505)	(559)	(610)	(524)	(536)	(497)	(234)	(147)	(169)	(209)	(222)	(243)
- receipts	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
- payments	(238)	(374)	(443)	(505)	(559)	(610)	(524)	(536)	(497)	(234)	(147)	(169)	(209)	(222)	(243)
c. workers remittance	0	0	0	0	0	0	10	45	53	61	71	86	99	125	166
- receipts	0	0	0	0	0	0	10	45	53	61	71	86	99	125	166
- payments	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
B. Non-factor services															
1. Oil/gas	(1,584)	(1,725)	(2,111)	(2,626)	(3,351)	(4,549)	(4,331)	(3,762)	(3,669)	(4,291)	(3,417)	(3,375)	(3,237)	(3,522)	(3,568)
a. freight on imports	(417)	(413)	(655)	(1,035)	(984)	(1,561)	(1,318)	(1,014)	(1,313)	(1,743)	(1,178)	(1,471)	(1,365)	(1,237)	(1,053)
- receipts	140	18	25	53	74	51	14	3	61	253	158	100	43	192	265
- payments	(557)	(431)	(680)	(1,088)	(1,058)	(1,612)	(1,332)	(1,017)	(1,374)	(1,996)	(1,336)	(1,571)	(1,408)	(1,429)	(1,318)
b. freight on imports	(174)	(179)	(161)	(253)	(340)	(435)	(443)	(383)	(295)	(255)	(217)	(221)	(212)	(241)	(322)
b. other transportation	(16)	(16)	(17)	(25)	(160)	(190)	(36)	(28)	(87)	(54)	(23)	(1)	(46)	(158)	(258)
c. others	(367)	(236)	(500)	(608)	(558)	(987)	(853)	(606)	(992)	(1,687)	(1,096)	(1,349)	(1,150)	(1,030)	(738)
2. Non-oil/gas	(1,167)	(1,312)	(1,456)	(1,591)	(2,367)	(2,988)	(3,013)	(2,748)	(2,556)	(2,548)	(2,239)	(1,904)	(1,872)	(2,285)	(2,515)
a. freight on imports	(716)	(804)	(840)	(900)	(1,218)	(1,468)	(1,609)	(1,663)	(1,353)	(1,137)	(1,073)	(1,133)	(1,290)	(1,531)	(2,021)
b. travel	(95)	(91)	(125)	(125)	(237)	(368)	(282)	(126)	(72)	(28)	157	477	806	871	1,339
- receipts	0	0	162	167	210	228	294	396	460	548	647	924	1,283	1,628	2,153
- payments	(95)	(91)	(287)	(323)	(447)	(596)	(576)	(522)	(532)	(576)	(490)	(447)	(477)	(757)	(814)
c. other transportation	(90)	(106)	(135)	(137)	(176)	(223)	(255)	(222)	(226)	(228)	(218)	(214)	(224)	(274)	(358)
d. others	(266)	(311)	(356)	(398)	(736)	(929)	(867)	(737)	(705)	(1,155)	(1,105)	(1,034)	(1,164)	(1,351)	(1,475)
TOTAL	(2,747)	(3,360)	(4,072)	(5,009)	(6,399)	(7,622)	(7,351)	(7,405)	(7,677)	(7,772)	(6,557)	(6,943)	(7,230)	(7,944)	(8,592)
1. Oil/gas	(944)	(1,225)	(1,620)	(2,292)	(2,948)	(3,993)	(3,539)	(3,283)	(3,612)	(3,679)	(2,499)	(2,719)	(2,523)	(2,868)	(3,060)
2. Non-oil/gas	(1,803)	(2,135)	(2,452)	(2,717)	(3,451)	(3,629)	(3,812)	(4,122)	(4,065)	(4,093)	(4,058)	(4,224)	(4,707)	(5,076)	(5,532)

Chapter 3

TRADE IN SERVICES IN KOREA

by

Sun Byoung Chae

I. An Overview of the Development of Trade in Services in Korea for the Last 15 Years (1976-1990)

1.1 Concepts and Definitions of International Transactions in Services

In this study the balance of payments concept of trade in services has been adopted. This refers to trade in nonfactor services, which is defined as the invisibles account balance minus the investment income component of services minus unrequited transfers. Therefore, according to the balance of payment classification, nonfactor services comprise the following five items.

1. shipment
2. other transportation
3. travel
4. other private services
5. government

The definitions of these items are in conformity with the Balance of Payments Manual of the IMF (4th. ed, 1977) and Korea compiles the monthly statistics on trade in services according to the above classification.

The IMF definition is very convenient in that it simplifies the process of data collection and calculation as well as making an easy comparative analysis among the SEACEN countries. This conceptualization, however, leaves out a significant part of the discussion on trade in services which is an integral part of the negotiations in the Uruguay Round¹.

1. There are two major approaches to the definition of services in international trade; location and ownership. The location approach is based on the location of the producer and the consumer of the trade services. The IMF uses this concept in defining services for the purpose of compiling balance of payments statistics. The ownership approach considers the ownership of the production unit providing the services. Under this concept, all service activities of foreign-owned firms are attributed to the country of the owner. This approach is employed in Uruguay Round Negotiations on trade in services.

1.2 The Role of Trade in Services Relative to its Contribution to the Domestic Economy as well as to International Trade

1.2.1 Service Industry and the Domestic Economy

Korea's service industry has expanded at an annual rate of 8.5 per cent at constant prices over the 1976-1990 period. The service sector accounted for 46.7 per cent of GDP (at current prices) in 1990 as compared to 40.8 per cent in 1976. The ratio of GDP at 1985 constant prices increased from 45.4 per cent to 46.0 per cent over the same period. Meanwhile, the share of manufacturing industry in GDP at current prices increased from 27.6 per cent to 29.2 per cent over the same period.

The service industry's growth in terms of employment is more phenomenal. Employment in the service industry grew from 3.7 million persons in 1976 to 8.5 million persons in 1990. As a result, the share of service sector employment to total employment increased from 29.3 per cent in 1976 to 47.0 per cent in 1990, while that of manufacturing employment increased from 21.3 per cent to 26.9 per cent over the same period.

1.2.2 Relationship between Service Industry and Manufacturing Industry

The development of service sectors can enhance manufacturing productivity and encourage structural adjustment by providing it with specialized services oriented to production activity. On the other hand, it can impede the development of manufacturing by absorbing factor resources like labor forces when it makes little contribution to the enhancement of manufacturing productivity.

In the case of Korea, although the share of services in GDP significantly increased, their contribution to the development of manufacturing industry seems unsatisfactory. This is demonstrated by the fact that the growth of services has largely depended on an expansion of consumption-oriented services rather than that of production-oriented services.

Table 3.1

GROSS DOMESTIC PRODUCT BY INDUSTRIAL SECTOR
(At current prices)

(Billion Won)

	1976	1980	1985	1990
Agriculture, forestry, and fishing	3,326.5 (23.6)	5,677.4 (14.9)	10,351.8 (12.8)	15,444.5 (9.1)
Mining and quarrying	160.0 (1.1)	491.3 (1.3)	790.9 (1.0)	783.7 (0.5)
Manufacturing	3,888.5 (27.6)	11,298.5 (29.7)	24,530.4 (30.3)	49,499.1 (29.2)
Electricity, gas and water	184.5 (1.3)	752.3 (2.0)	2,266.8 (2.8)	3,682.1 (2.2)
Construction	644.9 (4.6)	3,185.6 (8.4)	6,250.8 (7.7)	21,835.0 (12.9)
Service	5,752.3 (40.8)	16,779.5 (44.1)	36,724.1 (45.4)	79,207.5 (46.7)
Others	144.3 (1.0)	-143.5 (-0.4)	-67.6 (-0.1)	-750.4 (-0.4)
Total	144,101.0 (100.0)	38,041.1 (100.0)	80,846.9 (100.0)	169,701.4 (100.0)

Note:

Figures in parentheses represent the share of that industry in total GDP.

Table 3.2

CONTRIBUTION TO EMPLOYMENT BY INDUSTRIAL SECTOR

(Thousand Persons)

	1976	1980	1985	1990
Agriculture, forestry, and fishing	5,601 (44.6)	4,658 (34.0)	3,733 (24.9)	3,292 (18.3)
Manufacturing	2,678 (21.3)	2,972 (21.7)	3,504 (23.4)	4,847 (26.9)
Service	3,683 (29.3)	5,111 (37.3)	6,667 (44.5)	8,477 (47.0)
Others	594 (4.7)	965 (7.0)	1,066 (7.1)	1,420 (7.9)

Note:

Figures in parentheses represent the share of that industry in total GDP.

1.2.3 Trade in Services

The total value of Korea's trade in services has increased steadily due to the increased tradeability in services and the rapid growth of merchandise trade.

The growth of trade in services surpassed that of trade in goods in the 1970s but slacken in the 1980s, due mainly to a decline in overseas construction receipts, which had been the largest item among service receipts until the early 1980s.

The total value of services exports increased sharply from US\$1.5 billion in 1976 to US\$11.2 billion in 1990. The share of services exports in total exports of goods and services rose to 24.2 per cent in 1982 from 16.3 per cent in 1976, but since 1983 it has shown a declining trend and stood at 15.0 per cent in 1990.

The total value of services imports increased from US\$1.2 billion in 1976 to US\$9.9 billion in 1990. This increase was mainly attributable to a higher shipment and insurance receipts linked to the expanded volume of trade in goods and recent increased payments relating to overseas travel. Accordingly, the share of services imports to total imports of goods and services rose from 12.1 per cent to 13.2 per cent over the same period.

As a result, the figure for net services has shown a consistent surplus, even though its size has been decreasing in recent years. But the invisible trade account of the balance of payments, which includes factor as well as non-factor services, recorded a US\$451 million deficit in 1990, the first deficit since 1985.

Meanwhile, the trade balance, which had suffered a deficit until 1985, shifted to an ample surplus during the 1986 to 1989 period, due to the so-called 'three-lows', i.e. low interest rates and low value of U.S. dollar, but slid back into a deficit in 1990 due to the weakened international competitiveness of Korean goods resulting from the earlier Korean won appreciation, wage hikes, delay in structural adjustment, and higher oil prices.

The current account balance has shown almost the same pattern as the trade account balance except in 1977 when it recorded a slight

Table 3.3**TREND OF SERVICES EXPORTS AND IMPORTS**

(Million US Dollars)

	1976	1980	1985	1988	1989	1990
Services exports	1,525.9	4,706.6	5,592.8	9,664.3	10,323.2	11,170.4
Services imports	1,151.6	3,934.9	3,746.6	6,072.1	8,328.9	9,923.0
Net services	374.3	771.7	1,846.2	3,592.2	1,994.3	1,247.4
Invisible trade account	-71.8	-1,385.9	-1,446.1	1,267.2	210.8	-450.6

surplus due to a surplus in the invisible trade balance which offset the continued deficit in the trade balance.

In contrast, the capital account has maintained surpluses which offset, to a certain extent, the deficits generated in the current account. However, during the 1986 to 1989 period the capital account showed a deficit as the government discouraged the inducement of foreign capital and made efforts for the early redemption of foreign debts in order to manage the increased pressure of liquidity caused by the increased current account surpluses.

Looking at the overall pattern of the balance of payments, it may be seen that it has been in deficit since 1978 except between 1986 and 1989.

1.3 The Trend of Various Components of the Services Account

1.3.1 Shipment

Shipment has shown a steady increase. Freight receipts owed their sharp increase not only to the increased in volume of goods exported but also to the increase in the national flagged shipping capacity. Shipping payments also increased, rising from US\$332 million in 1976 to US\$1,358 million in 1990, but their growth rate was lower than that of shipping receipts. As a result, the shipment balance shifted into the black in 1980 and, since then it has sustained a consistent surplus.

1.3.2 Other Transportation

Other transportation covers those services performed by carriers, mainly the transport of passengers, that are not classified under "shipment" or "travel", together with goods and services acquired by carriers and consumed in their operations such as port services, charter of carriers, ship-repair services and deep-sea fishing expenses.

Other transportation receipts increased from US\$173 million in 1976 to US\$1,543 million in 1990. They showed a steady rise until the early 1980s, but slowed down in the mid 1980s due to the decrease in port services and carrier charter receipts. Since 1987, however, they have again increased rapidly, due to the increasing demand for transportation of goods exported and imported.

Table 3.4**BALANCE OF PAYMENTS**

(Million US Dollars)

	1976	1980	1985	1988	1989	1990
Current balance	-313.6	-5,320.7	-887.4	14,160.7	5,054.6	-2,179.4
Trade balance	-590.5	-4,384.1	-19.0	11,445.4	4,597.2	-2,003.6
Exports	7,814.6	17,214.0	26,441.5	59,648.2	61,408.7	63,123.6
Imports	8,405.1	21,598.1	26,460.5	48,202.8	56,811.5	65,127.2
Invisible trade balance	-71.8	-1,385.9	-1446.1	1,267.2	210.8	-450.6
Credit	1642.7	5,363.3	6,664.4	11,251.9	12,641.6	14,268.6
Debit	1714.5	6,749.2	8,110.5	9,984.7	12,430.8	14,719.2
Unrequited transfers	348.7	449.3	577.7	1,448.1	246.6	274.8
Capital balance	1727.7	3,801.0	513.3	-1,396.5	-3,302.2	3,881.2
Long-term	1371.2	1,856.5	1,100.8	-2,732.8	-3,362.5	547.5
Short-term	356.5	1,944.5	-587.5	1,336.3	60.3	3,333.7
Overall balance	1173.6	-1,889.6	-1,254.5	12,175.2	2,453.1	-273.9

Table 3.5**TRENDS OF SHIPMENT**

(Million US Dollars)

		1976	1980	1985	1988	1989	1990
Total	Receipts	181.2	956.9	1,324.5	2,079.0	2,183.6	2,278.9
	Payments	333.2	941.9	522.2	987.7	1,142.8	1,357.7
	Balance	-152.0	15.0	802.3	1,091.3	1,040.8	921.2
Freight	Receipts	171.3	910.5	1,290.7	1,985.8	2,088.6	2,158.6
	Balance	325.8	910.6	506.1	945.7	1,098.5	1,288.3
	Payments						
Insurance	Receipts	9.9	46.4	33.8	93.2	95.0	120.3
	Payments	7.4	40.3	16.1	42.0	44.3	69.4

Other transportation payments have also increased reflecting the steady increase in the amount of exports and imports and the expansion of shipping capacity by Korean companies.

1.3.3 Travel

Travel emerged as the largest items of trade in services in the late 1980's. Receipts and payments respectively increased to US\$3,161 million and US\$2,768 million in 1990 as against US\$275 million and US\$46 million in 1976. Travel receipts owed their growth to a sharp increase in inbound travelers associated with the Olympic Games in 1988 and the Asian Games in 1986. Meanwhile, travel payments have increased sharply since 1988 due to relaxation of previous restrictions on overseas travel. The result was a decline of the travel surplus in the last couple of years.

1.3.4 Other Private Services

Overseas construction services, communications, branch offices, newspapers and publishing, advertising expenses, other commissions and non-commodity insurance are classified under this item.

Among them income from overseas construction was particularly important. It emerged as one of Korea's main sources of foreign exchange in the mid-1970s, benefiting from construction boom in the Middle-East. From 1977 through 1984, average exports of construction services were US\$1,922 million, equivalent to 36.4 per cent of total services exports. However, since the mid-1980s, they have fallen dramatically due to a setback in construction business in the Middle-East. As a result, construction services exports in 1990 shrank to US\$353 million, 3.0 per cent of total services exports, whereas receipts from other components such as banking and agency commissions, and domestic branch expenses have greatly increased, contributing to the recovery in private services exports in recent years.

In the areas of other private services imports, there has been a notable increase in items such as branch office expenses, commissions and royalties for technology transfer in recent years. This reflects the fact that demand for services becomes diversified as an economy develops and its activities become more complex.

Table 3.6**TRENDS OF OTHER TRANSPORTATION**

(Million US Dollars)

		1976	1980	1985	1988	1989	1990
Total	Receipts	172.6	666.0	757.9	964.4	1,341.4	1,542.7
	Payments	288.0	1,380.5	1,345.9	2,148.2	2,618.8	3,211.0
	Balance	-115.4	-714.5	-588.0	-1,183.8	-1,277.4	-1,668.3
Passenger fares	Receipts	71.9	350.9	363.4	706.7	818.0	848.6
	Payments	16.9	44.7	52.8	181.7	230.9	352.1
Port services	Receipts	56.2	156.3	315.3	163.8	260.6	366.3
	Payments	126.7	733.0	858.2	1,061.7	1,300.0	1,577.8
Charters of carriers	Receipts	44.4	156.2	34.0	30.6	185.4	220.1
	Payments	125.7	438.5	274.7	273.1	680.6	806.7
Others	Receipts	0.1	2.6	45.2	63.3	77.4	107.7
	Payments	18.7	164.3	160.2	631.7	407.3	474.4

Table 3.7**TRENDS OF TRAVEL**

(Million US Dollars)

	1976	1980	1985	1988	1989	1990
Receipts	275.0	369.3	784.3	3,115.7	3,311.0	3,161.0
Payments	46.2	349.6	605.9	1,204.5	2,356.0	2,768.0
Balance	228.8	19.7	178.4	1,911.2	955.0	393.1

1.3.5 Government Services

This covers receipts from diplomatic bodies, the United Nations (U.N.) forces and international organizations, whereas payments to diplomatic bodies and technical aid constitute the debits to this account. A large part of exports of government services consists of amounts paid by the U.N. forces stationed in Korea, whereas imports of government services are mostly expenses incurred by overseas diplomatic offices. Government services were the most important category in trade in services until the early 1970s, but its share declined gradually to 8.0 per cent in overall services exports and 2.0 per cent in total services imports in 1990. In terms of value, government services exports increased from US\$194 million in 1976 to US\$896 million in 1990 while government services imports increased from US\$62 million to US\$202 million during the same period.

1.4 The Determinants of Comparative Advantage in Trade in Services

There has been little study on the determinants of comparative advantage in trade in services. This can be traced to the fact that trade in services is largely intangible, that it is tied to the international flow of people, information, money, and goods.

Despite these problems, some economists have tried to show through empirical studies that traditional trade theory concerning comparative advantage also applies to international trade in services. In particular, Andre Sapir and Ernst Lutz showed a clear relationship between trade pattern and resource endowments in their study sponsored by the World Bank in 1980².

In this paper, the analysis of the determinants of the various components of non-factor services is made using econometric models on the basis of those developed by Sapir and Lutz. The models were established by using the ordinary least squares method.

On the whole, the results were unsatisfactory and some determinant factors had opposite signs to those expected. This was

2. Andre Sapir and Ernst Lutz, Trade in Non-Factor Services: Past Trends and Current Issues, World Bank Staff Working Paper No. 410, 1980.

Table 3.8**TRENDS OF OTHER PRIVATE SERVICES**

(Million US Dollars)

		1976	1980	1985	1988	1989	1990
Total	Receipts	750.8	2,521.6	2,461.5	3,168.4	3,139.4	3,945.2
	Payments	451.7	1,039.2	1,485.4	2,365.1	3,147.7	3,776.3
	Balance	299.1	1,482.4	976.1	803.3	-8.3	168.9
Overseas construction	Receipts	438.0	1,751.2	984.7	360.5	238.7	352.6
	Payments	190.5	299.7	213.5	109.5	84.0	73.6
Branch expenditures	Receipts	106.3	123.2	199.4	306.2	329.2	358.1
	Payments	47.6	128.0	178.5	250.7	350.6	423.1
Commissions	Receipts	47.8	253.7	570.8	879.1	1,023.4	1,378.7
	Payments	61.6	156.4	272.5	413.7	580.3	630.8
Royalties	Receipts	0.2	3.1	3.2	42.5	23.1	37.2
	Payments	1.5	153.7	346.4	815.3	1,123.3	1,364.2
Non-merchandise insurance	Receipts	71.5	217.2	161.9	181.7	220.7	284.0
	Payments	90.9	177.0	251.9	243.8	234.4	261.8
Others	Receipts	87.0	173.2	541.5	1,398.4	1,304.3	1,534.6
	Payments	59.6	124.4	222.6	532.1	775.1	1,022.8

Table 3.9**TRENDS OF OTHER GOVERNMENT SERVICES**

(Million US Dollars)

		1976	1980	1985	1988	1989	1990
Total	Receipts	193.9	297.0	542.3	895.9	986.2	895.7
	Payments	49.8	132.3	127.3	175.0	208.9	202.8
	Balance	144.1	164.7	415.0	720.9	777.3	692.9
Receipts	Diplomatic corps	9.7	14.2	14.4	42.0	49.1	54.9
	The U.N. forces	183.0	278.1	525.0	845.9	930.0	826.8
	International organizations	1.1	0.4	0.3	0.3	0.3	0.7
	Others	0.1	4.3	2.6	7.7	6.8	13.3
	Diplomatic corps	33.7	77.6	111.2	137.7	164.7	164.0
Payments	Others	16.1	54.7	16.1	37.3	44.2	38.8

partly due to the problem intrinsic to the economic models (i.e. multicollinearity between explanatory variables). But the major reason can be found in the fact that the trends of many items were strongly affected by government policy measures.

A large part of competitiveness in services is based on human skills, the institutional environment, and past success in building an international network for their delivery which are precisely difficult to apply quantitative analysis.

1.4.1 Shipment

Shipment contains two separate components in Korea; freight and insurance. However, insurance is ignored in the analysis because its receipts and payments are insignificant compared to those of freight and are, in any case, proportional to those of shipment.

a. Freight Receipts

Korea's balance of payments indicates a receipt from freight transportation in either of the following two cases: i) Korean vessels are used in the transportation of domestic exports; or ii) third countries employed Korean vessels in their international transactions. If Korea imports commodities under its own flag, no entry would be recorded in the balance of payments since there would be no international transaction for shipping services.

Therefore, on the receipt side two explanatory variables were used as the determinants of receipts on freight, namely the value of Korean exports and the gross tonnage of Korean flagged ships. Both variables were expected to have positive signs.

$$\text{Log(SHCt)} = -14.803 - 0.435 \text{ Log(EXt)} + 2.986 \text{ Log(FLt)}$$

(-7.30) (-1.59) (5.74)

$$R^2 = 0.948$$

SHCt : Shipment credits in year t

EXt : Exports of commodities in year t

FLt : Total gross tonnage of flagged shipping in year t

Table 3.10**TREND OF NATIONAL FLAG SHIPPING RATIO**

(in Per Cent)

	1976	1980	1985	1988	1990
Total	33	49	45	40	36
Exports Volume	38	46	38	42	38
Imports Volume	29	50	48	39	36

Contrary to expectations, the coefficient of the value of Korean exports had a minus sign. This is because the two explanatory variables are highly correlated. (i.e. the correlation coefficient between two variables was 0.964). In order to differentiate the separate effects of the explanatory variables, simple regressions were tried.

$$\begin{aligned}\text{Log(SHCt)} &= -3.962 + 1.080 \text{ Log(EXT)} \\ &\quad (-2.91) \quad (8.02)\end{aligned}$$

$$R^2 = 0.819$$

$$\begin{aligned}\text{Log(SHCt)} &= -27.329 + 2.188 \text{ Log(FLt)} \\ &\quad (-11.98) \quad (15.03)\end{aligned}$$

$$R^2 = 0.941$$

As shown above, the increase of exports has a positive effect on receipts from freight transportation. However, receipts from freight has a closer relationship with changes in the capacity of Korean flagged shipping.

b. Freight Payments

Korea's balance of payments indicates a payment for freight transportation only where commodities are imported from other countries on their own or third-country flagged vessels. When Korea's imports are transported by its own carriers, no payments on freight are recorded in its balance of payments.

Therefore, the two variables are used in the regression analysis; the value of Korean imports and the gross tonnage of Korean vessels registered. The former is expected to have a positive expected sign, while the latter to be negative.

The regression equation for freight payment is as follows:

$$\begin{aligned}\text{Log(SHDt)} &= 7.328 + 2.072 \text{ Log(IMt)} - 2.498 \text{ Log(FLt)} \\ &\quad (6.57) \quad (9.82) \quad (-7.15)\end{aligned}$$

$$R^2 = 0.931$$

SHDt : Shipment debits in year t

IMt : Imports of commodities in year t

FLt : Total gross tonnage of carriers registered in year t

The regression result reaffirms the hypothesis mentioned above.

1.4.2 Other Transportation

As noted earlier the item of other transportation in Korea's balance of payments consists of a number of components. Analysis is made here of the two major items; passenger fares and port services.

a. Passenger Fares

A country's receipts from passenger fares depend upon the flow of inbound passengers. Similarly a country's payments for passenger fares are related to the flow of its nationals going abroad. Both the number of inbound and outbound passengers are expected to have positive signs.

The regression results are as follows:

$$\text{Log(PFCt)} = -11.658 + 1.23 \text{ Log (ARRt)}$$

$$(-2.02) \quad (3.03)$$

$$R^2 = 0.369$$

$$\text{Log(PFDt)} = -11.578 + 1.22 \text{ Log(DEPt)}$$

$$(-6.68) \quad (9.18)$$

$$R^2 = 0.856$$

PFCt : Passenger fares credits in year t

PFDt : Passenger fares debits in year t

ARRt : Number of inbound passengers in year t

DEPt : Number of outbound passengers in year t

b. Port Services

Port services are provided for both air and maritime carriers. However, because the services for airplanes are negligible, port services

are treated as if they pertained solely to the serving of vessels in this analysis.

A country's receipts from port services are postulated to be a function not only to the number and size of foreign carriers using its port facilities and of the duration of use but also receipts from bunker oil provided to foreign carriers. An approximation of these factors is derived from the country's total trade in commodities (exports plus imports), together with the oil price. In the same fashion, it can be postulated that a country's payments for port services are a positive function of both its total trade and the oil price.

The regression equations for port services receipts and payments are as follows:

$$\begin{aligned} \text{Log(PSCt)} = & -3.518 + 1.126 \text{ Log(POILt)} + 0.498 \text{ Log(EXIMt)} \\ & (-2.94) \quad (6.47) \quad (4.58) \end{aligned}$$

$$R^2 = 0.842$$

$$\begin{aligned} \text{Log(PSDt)} = & -5.958 + 0.729 \text{ Log(POILt)} + 0.951 \text{ Log(EXIMt)} \\ & (-9.84) \quad (8.28) \quad (17.27) \end{aligned}$$

$$R^2 = 0.969$$

PSCt : Port services credits in year t

PSDt : Port services debits in year t

POILt : Oil price in year t

EXIMt : Total trade in year t

1.4.3 Travel

It has been postulated that a country's per capita payments for travel services depend upon its per capita income. It was also assumed that the lower the costs of living or the cheaper the exchange rate, would also tend to induce more inbound travellers which would ultimately increase the travel receipts.

Therefore the regression equation, using GDP and exchange rate index as explanatory variables, is summarized as follows:

$$\text{Log}(\text{TRCt}) = -12.703 + 2.172 \text{ Log}(\text{FGDPt}) + 0.721 \text{ Log}(\text{EXRLt})$$

$$(-4.54) \quad (12.37) \quad (2.01)$$

$$R^2 = 0.944$$

$$\text{Log}(\text{TRDt}) = -8.718 + 1.79 \text{ Log}(\text{DGDpt}) + 0.263 \text{ Log}(\text{EXRSt})$$

$$(-5.37) \quad (9.28) \quad (0.556)$$

$$R^2 = 0.914$$

TRCt : Travel credits in year t (US\$)

TRDt : Travel debits in year t (US\$)

FGDPt : Weighted average GDP of 7 major tourist countries in year t (US\$)

DGDpt : Per capita GDP of the country in year t (US\$)

EXRLt : Exchange rate index in year t (US\$/WON)

EXRSt : Exchange rate index in year t (WON/US\$)

As shown in the equation for travel receipts, the variable EXRL has a positive sign contrary to expectations. This was due largely to the fact that the inbound tourist boom promoted by the 1986 Asian Games and the 1988 Olympics coincided with the appreciation of the won in the 1986-1989 period.

Nor did the exchange rates play a meaningful role in travel payments, because the number of Korean tourists going abroad has rapidly increased with the continued lowering of the age limit on overseas travel.

1.4.4 Other Private Services and Government Services

It is difficult to conduct a quantitative analysis of other private services, which is a sum of various components because of the differing characteristics of each components. On the other hand, a substantial part of trade in government services in Korea consists of military-related receipts and diplomatic corps expenditures. Therefore, it can hardly be expected to respond to strictly economic factors.

II. Identification of Current Problems and Issues in Trade in Services

2.1 Balance of Payments Deterioration in the Services Account

Despite the continuing increase in services trade revenues, its surplus has been decreasing in recent years. This is mainly due to the increase in payments of tourist spending, passenger fares, and port services as well as the decrease in receipts from overseas construction.

The dramatic increase in travel payments is attributable to the series of government measures lifting restrictions on overseas travel and the growth of per capita income.

Over the period of 1987 to 1990, the annual number of outgoing nationals increased by over 3 times and per capita expenditure rose by 46.3 per cent. This is in sharp contrast with the receipts side, which showed a modest growth of 6.3 per cent in 1989 and 4.5 per cent decrease in 1990 in terms of value. Moreover, the overseas travel boom also brought about a rapid increase in passenger fares payments.

On the receipts side, it is pointed out that, despite the success of the Seoul Olympic Games, Korea failed to capitalise on the enormous publicity effect around the world. Factors causing the sluggish growth of tourism receipts are i) changing tourism patterns which put more weight on a combination of sightseeing and events such as sports or entertainments, ii) insufficient linkages among tourist sights due to inactive tourist route development, iii) unfavorable economic conditions in major tourist-market countries such as the United States and Western Europe, and iv) weakened competitiveness of the tourist industry due to the higher cost of living.

In addition, the insufficient national shipping capacity, which falls short of the trade volume, and the set-back in construction market in the Middle-East coupled with weakened competitiveness resulted in the deterioration in the services account.

2.2 Market Access

As the United States and many other advanced countries are shifting into "service economies" in terms of the composition of

employment and output, they strongly advocate the issue of market access in the service trade not only through bilateral negotiations but also in a framework of the multilateral negotiations of the Uruguay Round. Their primary concern centers on the ability of foreign firms to serve local markets via direct investment, rather than to compete through "trade" in the usual sense.

Korea has already liberalized the foreign investment in sectors such as film distribution and production (1987.7), cigarette imports and wholesaling (1988.7), life insurance services (1988.3), trade business (1988.10), shipping services (1989.7), tourist arrangements (1991.1) as a result of bilateral negotiations with the United States. On the other hand, the Uruguay Round negotiations on trade in services cover a wider range of issues and Korea is preparing its offer list which will contain the liberalization schedule on sectoral basis.

The problems Korea is facing with regard to market access can be summarized as below:

- i) Many trade services tend to be capital or technology intensive, thus giving the developed countries a competitive edge;
- ii) The question of national security and cultural integrity play a much larger role than in the goods sector; and,
- iii) It is hard to apply measures such as tariffs and quotas on trade in services to protect domestic service industries like commodity transactions.

2.3 Enhancement of Service Industries' Competitiveness

So far there has been little discussion with regard to strategies on how to enhance the competitiveness of domestic service industries. A policy of opening the domestic market can be considered as a way to stimulate the enhancement of service industries' competitiveness. However, most domestic industries which have not experienced international competition might be highly vulnerable to competition with multinational corporations which have worldwide network.

Meanwhile, the protection of the domestic market certainly does not guarantee the enhancement of competitiveness either. It could only

Table 3.11**LIFTING OF RESTRICTIONS ON OVERSEAS TRAVEL**

1987.12	- Ceiling on traveler's basic expenditure was raised (US\$ 3,000 --> US\$ 5,000)
1988.1	- Liberalization of overseas travel for persons over 40 year of age
1988.7	- Abolition of bank designation and authentication in the use of credit cards - Liberalization of overseas travel for persons over 30 year of age
1989.1	- Abolition of age limit

Table 3.12**TREND OF TRAVEL AND EXPENDITURE**

(Thousand Persons)

	1976	1980	1985	1987	1990
Arrivals	834.2 (0.33)	976.4 (0.38)	1,426.1 (0.55)	1,874.5 (1.18)	2,958.8 (1.07)
Departures	164.7 (0.28)	338.8 (1.03)	484.2 (1.25)	510.5 (1.21)	1,560.9 (1.77)

Note:

Figures in parentheses indicate per capita expenditures (in thousand US dollars).

result in monopoly rather than internal competition, and therefore a set-back to expand service capacity and enhance competitiveness by domestic industries.

2.4 Statistics on Trade in Services

Statistics on trade in services are closely related to the definition of services. Conceptually, international trade in services involves not only the services provided through cross-border transactions, but also services provided by direct foreign investment, through the movements of consumers or through movement of producers. Therefore, current statistics which are compiled and classified in conformity with the IMF's Balance of Payments Manual failed to capture such a diversity of traded services.

The other problems with regard to the statistics on trade in services can be found in the fact that services are by nature invisible and intangible, with no generally accepted unit of value such as metric tons, barrels or bushels. Moreover, a number of services are embodied in goods, e.g. labour services. This results in generally less complete and less reliable statistics on services than those on goods.

III. Policy Measures Undertaken to Deal with the Problems Arising out of Trade in Services

3.1 Policy Measures Applied to Trade in Services Problems

The government's policy with regard to trade in services has centered primarily on the expansion of opportunities to acquire foreign exchange and create employment as well as on supporting production activities. The government pursued a strategy to strengthen domestic services capacity and this has been successful in some areas.

Korea, however, needs new policy alternatives in facing the new economic environment brought about by the large deficits in the current balance, the sharp increase in domestic wages and the Uruguay Round Negotiations, etc.

A brief historical review of the measures undertaken on major items of trade in services are as follows:

3.1.1 Shipment

The government has had special concern about the shipping industry for several reasons:

- i) It is directly related to the expansion of trade in goods;
- ii) It could develop as a reliable source of foreign exchange;
- iii) Korea, which is heavily dependent on imports for natural resources, needs a stable means of transportation for them; and,
- iv) The development of the shipping industry is closely related to the development of the ship-building industry.

In this regard, the government undertook a number of incentives and measures to develop this sector. The recent measures or activities with regard to the shipping industry are as follows:

- i) National flag ships are favoured by a "waiver system" which prescribes their use in principle. At present, "the Shipping Promotion Law" prescribes the use of national flag ships in the areas where domestic ships are in service on a regular basis and separately lists 11 items of goods that have to be shipped on national ships;
- ii) Import of used ships was allowed to meet the need for shipping capacity expansion;
- iii) Korea-Soviet Union route was newly opened; and,
- iv) Active participation in the activities of international organizations such as UNCTAD and ESCAP and in the Uruguay Round.

3.1.2 Travel

Policies for the development of tourism have been based on the understanding that it contributes to the national economy through the increase of national income, and the improvement of the balance of payments.

Korea has actively promoted tourism since the "Tourism Promotion Law" was enacted in 1961. The Korea National Tourism Corporation was established in 1962 and it took charge of overseas promotion, development of tourist potential and educating employees involved in the tourist sector. In 1972, the Tourism Promotion and Development Fund was provided to support hotel construction and tourist resort developments. Tourist hotels were given several concessions such as the reduction of electrical charges and value-added taxes.

Declaring tourism as one of the national strategic projects in 1975, the government established a long-term tourism promotion plan which comprised of private sector-led tourism promotion, the globalization of Korean culture, the development of new tourist potential, and etc.

The Asian Games in 1986 and the Olympics in 1988 provided a turning point for Korea's tourism industry. In particular, the Seoul Olympic Games gave not only a big boost to the industry with its enormous publicity effect around the world but it was also an opportunity to expand the tourist facilities like hotels and shopping complexes. Policies and activities were formulated as below:

- i) Entrance procedures for foreigners were simplified;
- ii) The establishment of travel agencies was allowed by registration without approval by the government;
- iii) Tourist promotion parties were dispatched and promotional materials such as posters, brochures and stickers were distributed;
- iv) A nation-wide campaign calling for public orderliness and cleanliness was initiated by relevant public and private organizations; and,
- v) Tourist-related businesses were given financial support and tax incentives.

At present, the government is preparing a new long-term tourism promotion plan which includes activities concerning the project of "Visit Korea Year 1994".

3.1.3 Overseas Construction

It was not until 1973 that Korean firms ventured to engage in the overseas construction market on a full scale. This gave the Korean economy new vitality by generating huge amounts of foreign exchange and creating new employment opportunities. The government supported the overseas construction business through various financial and tax benefits such as:

- i) Overseas financing for the purchase of materials and equipments necessary for overseas construction;
- ii) Acceptances and guarantees by domestic banks concerning overseas financing or bids;
- iii) Tax reduction on income from overseas business; and,
- iv) Special depreciation on construction equipment and machinery.

But as overseas construction services exports declined drastically owing to a set-back in the Middle-Eastern economy, the government in 1984 adopted measures aiming at the enhancement of the competitiveness of the construction industry. The measures included the introduction of a ceiling on overseas financing by construction companies and the reinforcement of a prior evaluation system on the profitability of each construction project.

In May 1986, the government took measures to restrain construction exports to the Middle-East, aimed to diversify the overseas construction market in an effort to cope with the adverse change in the Middle-Eastern construction market caused by the decline in oil prices. These contributed to the expansion of overseas construction market of Korean companies to Asia and North Africa.

3.2 The Impact of the Uruguay Round Negotiations on Trade in Services and Future Implementation Plans

Since the Uruguay Round negotiations has not yet been concluded, it would be difficult to assess the possible impact of the Uruguay Round on the trade in services in Korea. However, it is expected that the

negotiations will have a tremendous impact on domestic industry. As was pointed out earlier, there is much concern that domestic firms which are inferior to multinational companies in capital, economy of scale, technology and productivity may lose market share.

Nevertheless, several positive effects can also be found:

- i) Open competition will benefit consumers who will have a greater variety of services at a more competitive price;
- ii) The domestic service industry may have an opportunity to enhance its international competitiveness and enter overseas markets;
- iii) The supply of better services at lower prices will increase the effectiveness of manufacturing industry; and,
- iv) Foreign services entrance will bring about a technology transfer effect benefiting the domestic industry.

In addition, for Korea which is inferior in bargaining power, multinational negotiations can be better than bilateral ones because the former are rule-based, while the latter are quantity-oriented. In this regard, Korea has actively participated in the Uruguay Round. The government has already submitted an initial offer list in January 1991 and has sent a request list to 8 major participating countries.

IV. Major Findings and Concluding Remarks

The service sector is an increasingly important sector in terms of product and employment in the Korean economy. It accounted for about 46.7 per cent of the GDP at current prices and 47.0 per cent of total employment in 1990.

The total value of trade in services in Korea has shown a steady increase due to an increase in trade volume in goods and the tradeability of services. Some items such as shipments, travel and overseas construction played an important role in Korean economy as major sources of foreign exchange acquisition.

Net services showed consistent surpluses from 1976 through 1990, but the surpluses has been decreasing since 1988. This is mainly attributable to the sharp increase in shipment and travel payments as well as the decrease in overseas construction receipts.

An analysis of determinants of comparative advantage in trade in services was attempted. But the results were unsatisfactory and some determinant factors had opposite signs to those expected. This seems not only due to the problem intrinsic to the economic models but also the fact that the trends of many items were strongly affected by the policy measures of the government.

There is much discussion concerning the policy measures for the improvement of the services account; however, it is not easy to find effective measures to complement the general trend of liberalization of the Korean economy.

The Uruguay Round negotiations raises new issues and problems which are expected to have a tremendous impact on the Korea's service sector. This include various areas of the services sector and market access issues comprising not only cross-border transactions but also a commercial presence.

In consideration of the changing economic environment mentioned above, a policy should focus on the improvement of the competitiveness of domestic industry. And the policy should be based on a close examination of the characteristics and determinants of comparative advantage peculiar to each industry.

GROSS DOMESTIC PRODUCT BY INDUSTRIAL SECTOR (At Current Prices)

(Billion Won)

	1976	1977	1978	1979	1980	1981	1982	1983	1984	1985	1986	1987	1988	1989	1990
Agriculture forestry and fishing	3,326.5 (23.6)	4,051.1 (22.4)	5,018.8 (20.6)	6,013.6 (19.2)	5,677.4 (19.2)	7,430.6 (15.6)	7,989.2 (14.7)	8,678.2 (13.6)	9,392.1 (12.9)	10,351.8 (12.8)	10,728.6 (11.5)	11,353.3 (10.5)	13,493.9 (10.5)	14,457.8 (10.1)	15,444.5 (9.1)
Mining and quarrying	160.0 (1.1)	251.4 (1.1)	320.6 (1.3)	347.3 (1.1)	491.3 (1.3)	646.6 (1.4)	636.5 (1.2)	688.6 (1.1)	732.6 (1.0)	790.9 (1.0)	903.2 (1.0)	916.2 (0.8)	927.9 (0.7)	813.7 (0.6)	783.7 (0.5)
Manufacturing	3,888.5 (27.6)	4,972.8 (27.5)	6,831.1 (28.1)	9,032.1 (28.8)	11,298.5 (29.7)	14,198.6 (29.9)	15,907.6 (29.2)	19,105.5 (29.9)	22,375.3 (30.8)	24,530.4 (30.3)	29,579.4 (31.7)	34,903.3 (32.2)	41,617.3 (32.5)	44,649.3 (31.2)	49,499.1 (29.2)
Electricity, gas and water	184.5 (1.3)	260.3 (1.4)	317.6 (1.3)	523.6 (1.7)	752.3 (2.0)	1,022.4 (2.2)	1,208.0 (2.2)	1,576.9 (2.5)	2,000.4 (2.8)	2,266.8 (2.8)	2,897.4 (3.1)	3,196.9 (2.9)	3,364.6 (2.6)	3,463.4 (2.4)	3,682.1 (2.2)
Construction	644.9 (4.6)	1,008.7 (5.6)	1,872.5 (7.7)	2,660.8 (8.5)	3,185.6 (8.4)	3,437.4 (8.5)	4,211.4 (7.7)	5,171.2 (8.1)	5,739.2 (7.9)	6,250.8 (7.7)	6,646.2 (7.1)	8,069.2 (7.4)	10,328.9 (8.1)	13,931.2 (9.7)	21,835.0 (12.9)
Service	5,752.3 (40.8)	7,308.3 (40.4)	9,651.6 (39.7)	12,560.0 (40.1)	16,779.5 (44.1)	20,631.9 (43.5)	23,834.8 (43.8)	27,949.8 (43.8)	31,977.2 (44.0)	36,724.1 (45.4)	42,518.6 (45.5)	49,555.7 (45.7)	58,463.2 (45.7)	67,154.7 (47.0)	79,207.5 (46.7)
Others	144.3 (1.0)	221.5 (1.2)	314.9 (1.3)	185.7 (0.6)	-143.5 (-0.4)	114.6 (0.2)	655.2 (1.2)	662.6 (1.0)	427.7 (0.6)	-67.6 (0.1)	122.5 (0.1)	433.8 (0.4)	-233.2 (-0.2)	-1,468.6 (-1.0)	-750.4 (-0.4)
Total	14,101.0 (100.0)	18,074.1 (100.0)	24,327.1 (100.0)	31,323.1 (100.0)	38,041.1 (100.0)	47,482.0 (100.0)	54,442.8 (100.0)	63,832.8 (100.0)	72,644.3 (100.0)	80,846.9 (100.0)	93,425.8 (100.0)	108,428.3 (100.0)	127,962.7 (100.0)	143,001.4 (100.0)	169,701.4 (100.0)

Note:

Figures in parentheses represent the share of that industry in total GDP.

GROSS DOMESTIC PRODUCT BY INDUSTRIAL SECTOR (At Constant 1985 Prices)

(Billion Won)

	1976	1977	1978	1979	1980	1981	1982	1983	1984	1985	1986	1987	1988	1989	1990
Agriculture forestry and fishing	9,545.6 (22.5)	9,811.3 (21.0)	8,845.5 (17.3)	9,460.3 (17.1)	7,656.8 (14.2)	8,749.8 (15.2)	9,401.2 (15.2)	10,128.5 (14.7)	9,977.2 (13.2)	10,351.8 (12.8)	10,829.6 (11.9)	10,097.5 (9.9)	10,902.6 (9.6)	10,779.9 (8.9)	10,354.1 (7.9)
Mining and quarrying	721.8 (1.7)	813.4 (1.7)	854.3 (1.7)	817.0 (1.5)	775.3 (1.4)	781.3 (1.4)	699.5 (1.1)	738.7 (1.1)	762.2 (1.0)	790.9 (1.0)	856.0 (0.9)	845.3 (0.8)	840.1 (0.7)	779.4 (0.6)	699.9 (0.5)
Manufacturing	9,454.6 (22.3)	10,877.7 (23.3)	13,165.8 (25.7)	14,534.7 (26.3)	14,426.0 (26.7)	15,851.3 (27.5)	16,913.6 (27.4)	19,517.4 (28.2)	22,901.1 (30.3)	24,530.4 (30.3)	29,017.5 (32.0)	34,460.0 (33.9)	39,086.1 (34.4)	40,543.2 (33.7)	43,953.5 (33.5)
Electricity, gas and water	571.9 (1.4)	613.4 (1.3)	814.5 (1.6)	881.5 (1.6)	1,026.1 (1.9)	1,181.4 (2.1)	1,247.8 (2.0)	1,601.4 (2.3)	1,998.1 (2.6)	2,266.8 (2.8)	2,841.0 (3.1)	3,190.2 (3.1)	3,504.3 (3.1)	3,880.4 (3.2)	4,525.0 (3.4)
Construction	2,386.9 (5.6)	3,087.9 (6.6)	3,975.4 (7.8)	4,230.6 (7.7)	4,157.7 (7.7)	3,946.6 (6.9)	4,678.0 (7.6)	5,670.7 (8.2)	5,986.9 (7.9)	6,250.8 (7.7)	6,560.4 (7.2)	7,394.2 (7.3)	8,097.1 (7.1)	9,397.4 (9.7)	11,486.6 (12.9)
Service	19,280.3 (45.4)	20,972.2 (44.9)	22,729.2 (44.3)	24,375.7 (44.2)	25,309.8 (46.9)	26,518.4 (46.0)	28,420.8 (46.0)	30,992.1 (44.9)	33,671.1 (44.5)	36,724.1 (45.4)	40,821.1 (44.9)	45,738.2 (44.9)	51,014.9 (45.0)	55,007.4 (45.7)	60,407.8 (46.0)
Others	500.5 (1.2)	573.3 (1.2)	903.9 (1.8)	881.9 (1.6)	637.0 (1.2)	586.6 (1.0)	460.0 (0.7)	452.3 (0.7)	309.8 (0.4)	-67.6 (-0.1)	-57.8 (-0.1)	78.4 (0.1)	47.1 (0.0)	89.5 (0.1)	-164.0 (-0.1)
Total	42,470.6 (100.0)	46,749.2 (100.0)	51,288.6 (100.0)	55,181.5 (100.0)	53,988.7 (100.0)	57,615.4 (100.0)	61,820.9 (100.0)	69,101.0 (100.0)	75,606.4 (100.0)	80,846.9 (100.0)	90,867.8 (100.0)	101,803.5 (100.0)	113,492.2 (100.0)	120,477.2 (100.0)	131,262.8 (100.0)

Note:

Figures in parentheses represent the share of that industry in total GDP.

CONTRIBUTION OF INDUSTRIAL SECTORS TO EMPLOYMENT

(Thousand Persons)

	1976	1977	1978	1979	1980	1981	1982	1983	1984	1985	1986	1987	1988	1989	1990
Agriculture	5,601	5,405	5,181	4,887	4,658	4,801	4,612	4,315	3,914	3,733	3,662	3,580	3,484	3,418	3,292
forestry	(44.6)	(41.8)	(38.4)	(35.8)	(34.0)	(34.2)	(32.1)	(29.7)	(27.1)	(24.9)	(23.6)	(21.9)	(20.7)	(19.5)	(18.3)
and fishing															
Manufacturing	2,678	2,798	3,016	3,126	2,972	2,859	3,033	3,266	3,348	3,504	3,826	4,416	4,667	4,840	4,847
	(21.3)	(21.6)	(22.4)	(22.9)	(21.7)	(20.4)	(21.1)	(22.5)	(23.2)	(23.4)	(24.7)	(27.0)	(27.7)	(27.6)	(26.9)
Service	3,683	3,998	4,365	4,704	5,111	5,363	5,795	5,999	6,119	6,667	6,941	7,252	7,556	8,021	8,477
	(29.3)	(30.9)	(32.4)	(34.4)	(37.3)	(38.2)	(40.3)	(41.4)	(42.4)	(44.5)	(44.8)	(44.3)	(44.8)	(45.8)	(47.0)
Others	594	728	928	947	965	1,000	939	925	1,048	1,066	1,076	1,106	1,163	1,232	1,420
	(4.7)	(5.6)	(6.9)	(6.9)	(7.0)	(7.1)	(6.5)	(6.4)	(7.3)	(7.1)	(6.9)	(6.8)	(6.9)	(7.0)	(7.9)

Figures in parentheses represent the share of that industry in total employment.

TREND OF SERVICES EXPORTS AND IMPORTS

(Million US Dollars)

	1976	1977	1978	1979	1980	1981	1982	1983	1984	1985	1986	1987	1988	1989	1990
Services Exports	1,573.5	2,887.3	4,164.3	4,494.7	4,810.8	5,885.3	6,795.4	6,597.5	6,597.2	5,870.5	7,239.3	9,244.6	10,223.4	10,961.6	11,823.6
Services Imports	1,180.8	1,979.9	3,040.6	3,342.5	3,860.6	4,269.4	4,044.4	4,061.6	4,143.4	4,086.6	4,598.5	5,417.9	6,880.4	9,474.3	11,315.2
Net Services	392.7	907.4	1,123.7	1,152.2	950.2	1,615.9	2,751.0	2,535.9	2,453.8	1,783.9	2,640.8	3,826.7	3,343.0	1,487.3	508.4
Invisible trade															
balance	-71.8	266.0	224.0	-194.6	-1,385.9	-1,518.4	-554.2	-434.6	-877.6	-1,446.1	-627.5	977.4	1267.2	210.8	-450.6

TREND OF TRADE IN SERVICES BY COMPONENTS

(Million US Dollars)

	1976	1977	1978	1979	1980	1981	1982	1983	1984	1985	1986	1987	1988	1989	1990
Total															
Receipts	1,573.5	2,887.3	4,164.3	4,494.7	4,810.8	5,885.3	6,795.4	6,597.5	6,597.2	5,870.5	7,239.3	9,244.6	10,223.4	10,961.6	11,823.6
Payments	1,180.8	1,979.9	3,040.6	3,342.5	3,860.6	4,269.4	4,044.4	4,061.6	4,143.4	4,086.6	4,598.5	5,417.9	6,880.4	9,474.3	11,315.2
Balance	392.7	907.4	1,123.7	1,152.2	950.2	1,615.9	2,751.0	2,535.9	2,453.8	1,783.9	2,640.8	3,826.7	3,343.0	1,487.3	508.4
Shipping															
Receipts	181.2	303.7	394.1	568.1	956.9	1,309.1	1,423.2	1,478.2	1,577.0	1,324.5	1,403.9	1,796.2	2,079.0	2,183.6	2,278.9
Payments	333.2	365.3	515.5	764.9	941.9	545.5	478.6	427.5	528.1	522.2	669.8	803.9	987.7	1,142.8	1,357.7
Balance	-152.0	-61.6	-121.4	-196.8	15.0	763.6	944.6	1,050.7	1,048.9	802.3	794.1	992.3	1,091.3	1,040.8	921.2
Other Transportation															
Receipts	172.6	254.0	289.4	495.5	666.0	784.1	988.3	944.5	851.0	757.9	708.9	904.2	964.4	1,341.4	1,542.7
Payments	288.0	514.1	672.6	884.4	1,380.5	1,629.0	1,532.5	1,434.4	1,316.6	1,345.9	1,555.7	1,953.2	2,148.2	2,618.8	3,211.0
Balance	-115.4	-260.1	-383.2	-388.9	-714.5	-844.9	-544.2	-489.9	-465.6	-588.0	-846.8	-1,049.0	-1,183.8	-1,277.4	-1,668.3
Travel															
Receipts	275.0	370.0	408.1	326.0	369.3	447.6	502.3	596.2	673.5	784.3	1,547.5	2,212.5	3,115.7	3,311.0	3,161.1
Payments	46.2	102.7	208.0	405.3	349.6	439.0	632.2	555.4	576.3	605.9	613.0	617.6	1,204.5	2,356.0	2,768.0
Balance	228.8	267.3	200.1	-79.3	19.7	8.6	-129.9	40.8	97.2	178.4	934.5	1,594.9	1,911.2	955.0	393.1
Other Private Services															
Receipts	750.8	1,720.8	2,781.6	2,696.9	2,521.6	2,992.0	3,462.9	3,090.8	2,861.9	2,461.5	2,813.1	3,482.7	3,168.4	3,139.4	3,945.2
Payments	451.7	935.6	1,560.3	1,181.3	1,039.2	1,457.2	1,244.5	1,505.7	1,609.9	1,485.4	1,604.9	1,880.3	2,365.1	3,147.7	3,776.3
Balance	299.1	787.2	1,221.3	1,515.6	1,482.4	1,534.8	2,218.4	1,585.1	1,352.0	976.1	1,208.2	1,602.4	803.3	-8.3	168.9
Other Official Services															
Receipts	193.9	238.8	291.1	408.2	297.0	352.5	418.7	487.8	533.8	542.3	705.9	849.0	895.9	986.2	895.7
Payments	61.7	64.2	84.2	106.6	149.4	198.7	156.6	138.6	112.5	127.2	155.1	162.9	174.9	209.0	202.2
Balance	132.2	174.6	206.9	301.6	147.6	153.8	262.1	349.2	421.3	415.1	550.8	686.1	721.0	777.2	693.5

BALANCE OF PAYMENTS

(Million US Dollars)

	1976	1977	1978	1979	1980	1981	1982	1983	1984	1985	1986	1987	1988	1989	1990
Current balance	-313.6	12.3	-1,085.2	-4,151.1	-5,320.7	-4,646.0	-2,649.6	-1,606.0	-1,372.6	-887.4	4,617.0	9,853.9	14,160.7	5,054.6	-2,179.4
Trade balance	-590.5	476.6	-1,780.8	-4,395.5	-4,384.1	-3,628.3	-2,594.4	-1,763.5	-1,035.9	-19.0	4,205.9	7,659.0	11,445.4	4,597.2	-2,003.6
Exports 1/	7,814.6	10,046.5	12,710.6	14,704.5	17,214.0	20,670.8	20,879.2	23,203.9	26,334.6	26,441.5	33,913.2	46,243.8	59,648.2	61,408.7	63,123.6
Imports 1/	8,405.1	10,523.1	14,491.4	19,100.0	21,598.1	24,299.1	23,473.6	24,967.4	27,370.5	26,460.5	29,707.3	38,584.8	48,202.8	56,811.5	65,127.2
Invisible trade balance	-71.8	266.0	224.0	-194.6	-1,385.9	-1,518.4	-554.2	-434.6	-877.6	-1,446.1	-627.5	977.4	1,267.2	210.8	-450.6
Credit	1,642.7	3,027.0	4,450.1	4,826.2	5,363.3	6,598.1	7,476.3	7,178.7	7,316.3	6,664.4	8,051.7	10,010.0	11,251.9	12,641.6	14,268.6
Debit	1,714.5	2,761.0	4,226.1	5,020.8	6,749.2	8,116.5	8,030.5	7,613.3	8,193.9	8,110.5	8,679.2	9,032.6	9,984.7	12,430.8	14,719.2
Unrequited transfers (net)	348.7	222.9	471.6	439.0	449.3	500.7	499.0	592.1	540.9	577.7	1,038.6	1,217.5	1,448.1	246.6	274.8
Capital balance	1,727.7	1,334.1	995.3	3,506.5	3,801.0	2,759.6	1,233.9	2,163.9	1,309.5	513.3	-2,374	-5,842.8	-1,396.5	-3,302.2	3,881.2
Long-term 2/	1,371.2	1,312.7	2,166.3	2,662.9	1,856.5	2,841.9	1,230.3	1,270.4	2,067.4	1,100.8	-1,981.9	-5,835.8	-2,732.8	-3,362.5	547.5
Short-term	356.5	21.4	-1,171	843.6	1,944.5	-82.3	3.6	893.5	-757.9	-587.5	-392.1	-7.0	1,336.3	60.3	3,333.7
Overall balance	1,173.6	1,314.7	-401.9	-973.3	-1,889.6	-2,297.0	-2,717.2	-384.4	-957.5	-1,254.5	1,699.5	5,202.1	12,175.2	2,453.1	-273.9

1/ The entries are derived from trade statistics and valued on an FOB basis.

2/ Long-term capital is defined as that with an original maturity of more than one year.

TRENDS OF SHIPPING

(Million US Dollars)

	1976	1977	1978	1979	1980	1981	1982	1983	1984	1985	1986	1987	1988	1989	1990
Total															
Receipts	181.2	303.7	394.1	568.1	956.9	1,309.1	1,423.2	1,478.2	1,577.0	1,324.5	1,463.9	1,796.2	2,079.0	2,183.6	2,278.9
Payments	333.2	365.3	515.5	764.9	941.9	545.5	478.6	427.5	528.1	522.2	669.8	803.9	987.7	1,142.8	1,357.7
Balance	-152.0	-61.6	-121.4	-196.8	15.0	763.6	944.6	1,050.7	1,048.9	802.3	794.1	992.3	1,091.3	1,040.8	921.2
Freight															
Receipts	171.3	283.3	367.8	528.2	910.5	1,298.9	1,397.1	1,453.6	1,549.5	1,290.7	1,414.1	1,711.1	1,985.8	2,088.6	2,158.6
Payments	325.8	341.0	486.5	728.7	901.6	530.1	442.4	403.1	508.3	506.1	647.2	764.9	945.7	1,098.5	1,288.3
Insurance															
Receipts	9.9	20.4	26.3	39.9	46.4	10.2	26.1	24.6	27.5	33.8	49.8	85.1	93.2	95.0	120.3
Payments	7.4	24.3	29.0	36.2	40.3	15.4	36.2	24.4	19.8	16.1	22.6	39.0	42.0	44.3	69.4

TRENDS OF OTHER TRANSPORTATION

(Million US Dollars)

	1976	1977	1978	1979	1980	1981	1982	1983	1984	1985	1986	1987	1988	1989	1990
Total															
Receipts	172.6	254.0	289.4	495.5	666.0	784.1	988.3	944.5	851.0	757.9	708.9	904.2	964.4	1,341.4	1,542.7
Payments	288.0	514.1	672.6	884.4	1,380.5	1,629.0	1,532.5	1,434.4	1,316.6	1,345.9	1,555.7	1,953.2	2,148.2	2,618.8	3,211.0
Balance	-115.4	-260.1	-383.2	-388.9	-714.5	-844.9	-544.2	-489.9	-465.6	-588	-846.8	-1,049.0	-1,183.8	-1,277.4	-1,668.3
Passenger fares															
Receipts	71.9	108.1	117.2	241.0	350.9	335.0	371.5	415.6	411.4	363.4	431.6	661.4	706.7	818.0	848.6
Payments	16.9	32.6	59.0	56.9	44.7	54.4	75.7	60.2	88.0	52.8	60.0	142.4	181.7	230.9	352.1
Port services															
Receipts	56.2	85.2	89.8	133.9	156.3	277.7	402.1	369.5	370.9	315.3	174.8	154.5	163.8	260.6	366.3
Payments	126.7	214.9	308.1	444.0	733.0	866.8	971.3	919.6	840.1	858.2	906.1	931.5	1,061.7	1,300.0	1,577.8
Charters of carriers															
Receipts	44.4	59.8	81.7	119.7	156.2	168	203.1	141.8	32.7	34	49.9	27.4	30.6	185.4	220.1
Payments	125.7	170.5	169	234.5	438.5	482.7	338.7	312.3	223	274.7	329.2	202.2	273.1	680.6	806.7
Others															
Receipts	0.1	0.9	0.7	0.9	2.6	3.4	11.6	17.6	36	45.2	52.6	60.9	63.3	77.4	107.7
Payments	18.7	96.1	136.5	149	164.3	225.1	146.8	142.3	165.5	160.2	260.4	677.1	631.7	407.3	474.4

TRENDS OF TRAVEL

(Million US Dollars)

	1976	1977	1978	1979	1980	1981	1982	1983	1984	1985	1986	1987	1988	1989	1990
Total															
Receipts	275.0	370.0	408.1	326.0	369.3	447.6	502.3	596.2	673.5	784.3	1,547.5	2212.5	3,115.7	3,311.0	3,161.1
Payments	46.2	102.7	208.0	405.3	349.6	439.0	632.2	555.4	576.3	605.9	613.0	617.6	1,204.5	2,356.0	2,768.0
Balance	228.8	267.3	200.1	-79.3	19.7	8.6	-129.9	40.8	97.2	178.4	1,594.9	1594.9	1,911.2	955.0	393.1

TRENDS OF OTHER PRIVATE SERVICES

(Million US Dollars)

	1976	1977	1978	1979	1980	1981	1982	1983	1984	1985	1986	1987	1988	1989	1990
Total															
Receipts	750.8	1,720.8	2,781.6	2,696.9	2,521.6	2,992.0	3,462.9	3,090.8	2,961.9	2,461.5	2,813.1	3,482.7	3,168.4	3,139.4	3,945.2
Payments	451.7	933.6	1,560.3	1,181.3	1,039.2	1,457.2	1,244.5	1,505.7	1,609.9	1,485.4	1,604.9	1,880.3	2,365.1	3,147.7	3,776.3
Balance	299.1	787.2	1,221.3	1,515.6	1,482.4	1,534.8	2,218.4	1,585.1	1,352.0	976.1	1,208.2	1,602.4	803.3	-8.3	168.9
Overseas construction															
Receipts	438.0	1,246.1	2,148.4	2,004.1	1,751.2	2,173.8	2,452.1	1,889.9	1,710.2	984.7	635.4	1,003.5	360.5	238.7	352.6
Payments	190.5	589.4	1,099.2	605.1	299.7	310.0	195.6	149.7	63.6	213.5	185.0	196.5	109.5	84.0	73.6
Branches expenditures															
Receipts	106.3	126.5	168.4	143.7	123.2	100.3	139.0	126.4	146.2	199.4	255.0	321.1	306.2	329.2	358.1
Payments	47.6	82.3	107.8	128.4	128.0	157.6	182.1	244.2	231.8	178.5	188.9	176.5	250.7	350.6	423.1
Labor income															
Receipts	3.2	23.5	23.6	25.0	15.5	30.5	54.9	65.2	83.4	97.6	142.2	59.5	67.3	98.6	127.9
Payments	1.5	2.1	3.0	3.9	5.2	8.0	7.3	6.9	14.7	15.0	14.8	25.6	24.7	20.6	26.3
Royalties															
Receipts	0.2	0.8	0.8	1.7	3.1	3.9	5.8	6.8	4.0	3.2	15.5	10.3	42.5	23.1	37.2
Payments	1.5	2.8	1.8	1.4	13.7	127.7	205.5	207.7	303.4	346.4	472.9	574.3	815.3	1,123.3	1,364.2
Commissions															
Receipts	47.8	77.4	162.3	216.8	253.7	298.5	403.3	475.4	492.1	570.8	788.3	943.7	879.1	1,023.4	1,378.7
Payments	61.6	61.9	96.9	101.7	156.4	214.6	257.0	294.4	326.4	272.5	264.8	310.4	413.7	580.3	630.8
Communication expenditures															
Receipts	18.7	23.8	26.6	35.1	30.3	35.3	46.2	69.3	45.9	56.2	205.0	255.1	458.0	213.3	283.8
Payments	4.3	5.2	6.0	6.5	4.1	6.8	14.2	12.7	11.4	5.4	7.3	17.4	17.2	27.9	50.3
Advertising expenses															
Receipts	0.0	0.2	0.2	0.6	1.3	0.9	1.1	1.2	2.2	3.1	4.5	7.1	24.5	44.2	71.0
Payments	1.9	2.5	3.7	7.6	8.0	8.3	8.0	10.9	13.7	19.2	20.7	38.4	67.5	100.4	144.6
Non-merchandise insurance															
Receipts	71.5	95.8	118.3	149.0	217.2	202.2	216.0	239.5	205.2	161.9	143.2	212.3	181.7	220.7	284.0
Payments	90.9	101.8	131.4	156.6	177.0	239.3	272.6	272.1	253.4	251.9	229.8	220.6	243.8	234.4	261.8
Others															
Receipts	65.1	126.7	133.0	120.9	126.1	146.6	144.5	217.1	272.7	384.6	624.0	670.1	848.6	948.2	1,051.9
Payments	51.9	85.6	110.5	170.2	107.1	384.9	102.2	307.1	391.5	183.0	220.7	320.6	422.7	626.2	801.6

TRENDS OF GOVERNMENT SERVICES

(Million US Dollars)

	1976	1977	1978	1979	1980	1981	1982	1983	1984	1985	1986	1987	1988	1989	1990
Total															
Receipts	193.9	238.8	291.1	408.2	297.0	352.5	418.7	487.8	533.8	542.3	705.9	849.0	895.9	986.2	895.7
Payments	61.7	64.2	84.2	106.6	149.4	198.7	156.6	138.6	112.5	127.2	155.1	162.9	174.9	209.0	202.2
Balance	132.2	174.6	206.9	301.6	147.6	153.8	262.1	349.2	421.3	415.1	550.8	686.1	721.0	777.2	693.5
Diplomatic corps	9.7	14.8	12.8	10.2	14.2	16.8	15.7	10.8	15.1	14.4	15.5	29.7	42.0	49.1	54.9
The U.N. forces	183.0	179.0	247.8	375.6	278.1	331.3	391.3	468.4	514.0	525.0	686.2	815.5	845.9	930.0	826.8
International organizations	1.1	0.8	0.3	0.2	0.4	0.7	0.3	0.2	0.4	0.3	1.0	3.7	0.3	0.3	0.7
Others	0.1	44.2	30.2	22.2	4.3	3.7	11.4	8.4	4.3	2.6	3.2	0.1	7.7	6.8	13.3
Diplomatic corps	33.7	37.4	56.5	57.3	77.6	97.5	96.0	93.5	97.6	111.2	131.9	138.9	137.7	164.7	164.0
Payments	28.0	26.8	27.7	49.3	71.8	101.2	60.6	45.1	14.9	16.0	23.2	24.0	37.2	44.3	38.2
Others															

Chapter 4

TRADE IN SERVICES IN MALAYSIA

by
Arlina Ariff

I. Introduction

The services account (factor and non-factor) had always had an adverse impact on Malaysia's balance of payments. The deficit in the services account had resulted in the drain in foreign exchange annually, on the average, amounting to US\$3-4 billion or as much as 10 per cent of the nation's GNP. Hence, the deficit has undoubtedly been an issue of concern to both the public and private sectors. This paper attempts to examine Malaysia's trade in services and to identify current problems and issues, as well as to examine the impact and effectiveness of the policy measures undertaken to reduce the persistent deficits in the services account of the country's balance of payments.

II. Overview of the Development of Trade in Services

2.1 Concepts and Definitions

Within the framework of the international economy, the difference between international service transactions and international service activities must be distinguished.

i) International service transactions

Refers to the export and import of services and therefore, correspond to international trade in services.

ii) International service activities

Refers to the foreign sales and purchases by affiliates or branches established abroad and therefore, implies international investment in services.

There are two concepts of international trade in services:

- (i) **"Location" Concept** - Services trade takes place when two parties involved are residents of different countries. This concept is used by the IMF.
- (ii) **"Ownership" Concept** - All activities of foreign-owned firms would be attributed to the country of owners. Hence, any transactions with locals (for example, transportation services) would be considered international trade while services obtained from parent company or the country of the parent company is considered domestic trade. The ownership concept is more complex as it does not take into account the "frontier" issue. Furthermore, this concept is not commonly used.

Unlike transactions in goods, where the physical movement across a frontier or border of producer country and its subsequent sale in consumer country constitutes an international trading activity, the same definition of trade cannot be easily applied to services since factors of production and consumers can and do move across national borders. Hence, there are different forms of international services transactions.

1) Across-the-Border Transactions

- This transaction involves a producer resident in the country of production and a consumer who is a resident of another country with the service itself crossing the border. This concept is similar to trade in goods.
- Services in this category includes cargo and passenger transportation, insurance, telecommunications services and various professional services.

2) Domestic-Establishment Trade

- This refers to the movement of the consumer to the production site in order to purchase the services.
- This includes tourism, education, health services, public utilities and sanitation purchased locally by foreign corporations.

3) Foreign-Earnings Trade

- This type of services comprised services delivered in the consumer's country which involve the importation of factors of production. This encompasses the trade in factor services.
- This includes, as follows:
 - foreign affiliates whose repatriated profits and dividends are classified as investment income.
 - labour exports which are classified as workers' remittances.

4) Third-Country Trade

- This type of transaction is seldom captured in trade statistics and more in line with the "ownership concept" and encompasses a currency flow perspective.
- As an example, a Singaporean firm in Malaysia purchases legal services from an American firm in Malaysia. Under the "location" concept, this transaction represents a domestic transaction between two residents. On the other hand, this type of transaction could represent services trade between two different entities (ownership concept).

The following matrix chart illustrates the above forms of international transactions.

		Factor of production/suppliers	
		No movement	Movement
Consumers	No Movement	Across-the-border trade	Foreign-earning trade
	Move	Domestic establishment trade	Third-country trade

For the purposes of this paper which describes Malaysia's trade in services, international services transactions will focus only on non-factor service transactions between Malaysian residents and non-residents, as defined by the IMF. The non-factor services include shipment, other transportation, travel, other official services and other private services. Unless stated otherwise, data provided in this paper refers only to non-factor services.

2.2 The Role of Trade in Services

2.2.1 Contribution to the Domestic Economy

The services sector is an important sector in the Malaysian economy, which is reflective of an open and trade-oriented economy. Despite broad changes in sectoral importance of the Malaysian economy, the services sector remained a dominant sector in the economy. Between 1960-85, the share of this sector had been sustained at a high level, dropping slightly to 44 per cent in 1985 and 42 per cent in 1990. Growth in this sector was due mainly to trading activities related to the agriculture, mining and manufacturing sectors - especially services in wholesale and retail trade; finance, insurance and business services; transport, communications and utilities. The Government services sector also increased rapidly in the 1970s, with the expansion in the role of the Government in the economy, associated partly with the implementation of programmes related to the New Economic Policy. On the whole, the relative share of the services sector in the economy had remained fairly stable - at slightly over 40 per cent during the past three decades. (see Table 4.1)

2.2.2 Contribution to International Trade

a. Services Exports

The exports of services from Malaysia, on the average, represented about 8 per cent of total exports of goods and services before 1980 and about 10-12 per cent during the period of 1981-90. In terms of average annual growth the services component of Malaysia's total exports grew about 16 per cent which was slightly higher than the average annual growth of merchandise exports (15 per cent). In relation to merchandise exports, the size of services exports was about 10-15 per cent of merchandise exports. (see Table 4.2)

Table 4.1**SERVICES AS A RATIO OF GROSS DOMESTIC PRODUCT**

Year	Services (Billion US Dollars)	As a ratio of GDP	
		Current Prices	Constant Prices 1/
1975	3.3	35	45
1976	3.3	30	44
1977	3.8	29	44
1978	6.4	39	39
1979	7.4	35	39
1980	8.2	33	40
1981	8.6	35	42
1982	9.1	34	42
1983	9.7	32	42
1984	10.4	31	42
1985	10.0	32	44
1986	9.6	35	43
1987	10.3	33	43
1988	10.7	31	42
1989	11.2	30	42
1990	12.4	29	42

1/ For the years 1975-77, based on 1970 prices
For the years 1978-90, based on 1978 prices

Source: Department of Statistics (Malaysia)

Table 4.2**SERVICES AND INTERNATIONAL TRADE**

Year	Services Exports (Billion US Dollars)	As a ratio of	
		Total Exports	Merchandise Exports (%)
1975	0.5	10.4	12.1
1976	0.5	7.7	8.6
1977	0.6	8.1	9.2
1978	0.7	8.4	9.6
1979	0.9	7.0	7.9
1980	1.2	8.2	9.5
1981	1.4	10.2	12.1
1982	1.7	11.8	14.1
1983	2.0	12.2	14.4
1984	2.0	10.8	12.6
1985	2.1	11.5	13.6
1986	2.1	12.8	15.3
1987	2.4	11.6	13.8
1988	2.6	10.7	12.5
1989	3.2	10.9	12.8
1990	4.2	12.2	14.6

Source: Department of Statistics (Malaysia)

b. Services Imports

As part of total imports of goods and services, services imports constituted about 20 per cent before 1980 and grew to a share of slightly above 20 per cent in the 1980s before declining to 17 per cent in 1989-90. Unlike services exports, imports of services represented about 30 per cent of merchandise imports. During the recession years of 1985 and 1986, the ratio increased to 35 per cent and 36 per cent respectively. This reflected the move taken by the Government to decrease the import bill of the country. While services imports also declined during these two years, the decline of 8 per cent in 1985 and 1986 was lower than the decline of the imports of goods by 14 per cent in 1985 and 11 per cent in 1986. This indicated the heavy dependence over the import of services which could not be easily reduced as the imports of goods. Furthermore, it is likely that the decline in services imports was due to reduction of services required for the importation of goods such as freight transportation and insurance. After 1986, the ratio of services imports to merchandise imports began to decline reflecting the pick-up in the import of goods. (see Table 4.3)

2.2.3 Services and the Balance of Payments

The services account (factor and non-factor services) in Malaysia's balance of payments has traditionally been in a deficit position which had deteriorated at an increasing rate since the 1960s. Since 1976, the non-factor services account (NFSA) has been growing at an average annual rate of 11 per cent up to 1990. In the period of 1976-80, the average annual growth rate of the NFSA recorded 31 per cent. Thereafter, this growth rate began to decline substantially. On the other hand, the average annual growth rate of factor services payments in the form of profit and dividends, as well as lower interest payments following reduction of the external debt and restraint in external borrowing.

Focussing back on the NFSA, the rate of the deterioration began to decelerate after 1980. By 1990, the NFSA recorded a deficit of US\$1.8 billion, a slight improvement over 1989, amounting to 11 per cent of the total exports of goods and services. In terms of balance in trade of goods and services, the only periods when the services deficit did not contribute to a deficit position in this trade account were in 1976-79 and 1987-88. These were the only periods when the surpluses in the merchandise trade were more than sufficient to offset the deficit in the

Table 4.3**SERVICES AND INTERNATIONAL TRADE**

Year	Services Imports (Billion US Dollars)	As a ratio of	
		Total Imports	Merchandise Imports (%)
1975	0.9	18.0	24.7
1976	0.9	16.5	22.9
1977	1.1	19.7	27.9
1978	1.4	17.0	24.5
1979	2.2	19.0	27.9
1980	2.8	18.6	26.9
1981	3.0	18.5	25.5
1982	3.4	18.8	26.3
1983	4.1	20.7	30.8
1984	4.4	21.3	32.9
1985	4.0	22.0	35.0
1986	3.7	22.7	36.1
1987	3.9	20.9	32.4
1988	4.6	20.1	29.9
1989	5.2	17.7	24.9
1990	6.1	16.6	22.5

Source: Department of Statistics (Malaysia)

services account. However, the situation is reversed when only non-factor services were taken into account. The only years when non-factor services had an adverse impact on trade in goods and services were in 1975 and the period between 1981-83. These were times of low surpluses or small deficits in the merchandise account. Since the bulk of the services payments is related to imports and exports, the rising trend in the deficit was, to a certain extent, inevitable. Nevertheless, the persistent and rapid rise in the growth of the net deficit caused significant strain on the overall balance of payments position. The persistent annual services (factor and non-factor) deficit was responsible for the current account deficits in two of the 10 years from 1961-70, four of the nine years from 1971-79, and for six years between 1980-90. Nevertheless, some solace was found in 1990 when, despite the sustained buoyant economic activity, the services account balance, while still largely in deficit at US\$1.8 billion or -4.5 per cent of GNP, recorded a marked improvement from US\$2 billion or -5.7 per cent of GNP in 1989. In the past, declines in the services deficit was only recorded in periods of recession or slow growth, as in 1985-87. This favourable development in 1990 was attributable mainly to higher receipts from tourism. (see Table 4.4)

2.3 Major Components of the Services Account

The major components of the services account are:

- Freight and insurance;
- Travel; and,
- Other private services.

The other two components, other transportation and other government services, do not contribute significantly to the services deficit and at most times would record small surpluses which would offset very slightly the net outflows in the other components. (see Table 4.5)

2.3.1 Freight and Insurance

This item represents the transactions made for cargo transportation by air and sea and is closely linked to the level of imports and freight rates, since Malaysian exports are usually transacted on c.i.f. basis whereas imports on f.o.b. basis. The net outflows from freight and insurance has always been the largest source of the non-factor services deficit. In

Table 4.4**BALANCE OF PAYMENTS**

(Billion US Dollars)

Year	Merchandise account	Net non-factor services	Net factor services	Trade Balance (goods & services)	Current Account	Capital Account
1975	0.3	-0.4	-0.3	-0.5	-0.5	0.7
1976	1.5	-0.4	-0.4	0.6	0.6	0.6
1977	1.5	-0.5	-0.5	0.5	0.4	0.1
1978	1.6	-0.7	-0.7	0.2	0.1	0.5
1979	3.2	-1.3	-0.9	0.9	0.9	0.2
1980	2.4	-1.6	-1.1	...	...	1.4
1981	-0.1	-1.6	-0.7	-2.5	-2.5	2.6
1982	-0.8	-1.7	-1.1	-3.6	-3.6	3.8
1983	0.4	-2.1	-1.8	-3.5	-3.4	3.9
1984	3.0	-2.4	-2.2	-1.6	-1.7	2.7
1985	3.6	-2.0	-2.2	-0.6	-0.6	2.1
1986	3.2	-1.6	-1.8	-0.2	-0.1	1.3
1987	5.8	-1.4	-1.9	2.5	2.6	-1.5
1988	5.5	-2.0	-1.9	1.7	1.8	-2.3
1989	3.9	-2.0	-2.2	-0.3	-0.2	1.6
1990	1.9	-1.8	-1.8	-1.8	-1.7	3.2

Source: Department of Statistics (Malaysia)

Chart 4.1

SERVICES ACCOUNT

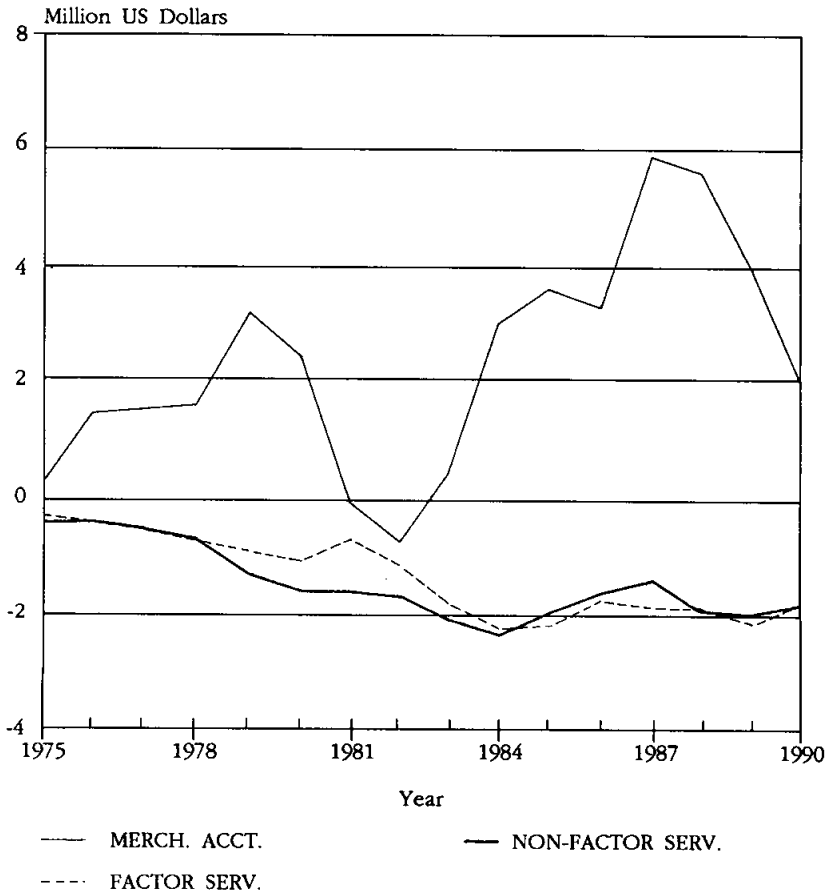


Chart 4.2

MAJOR COMPONENTS OF NON-FACTOR SERVICES ACCOUNT

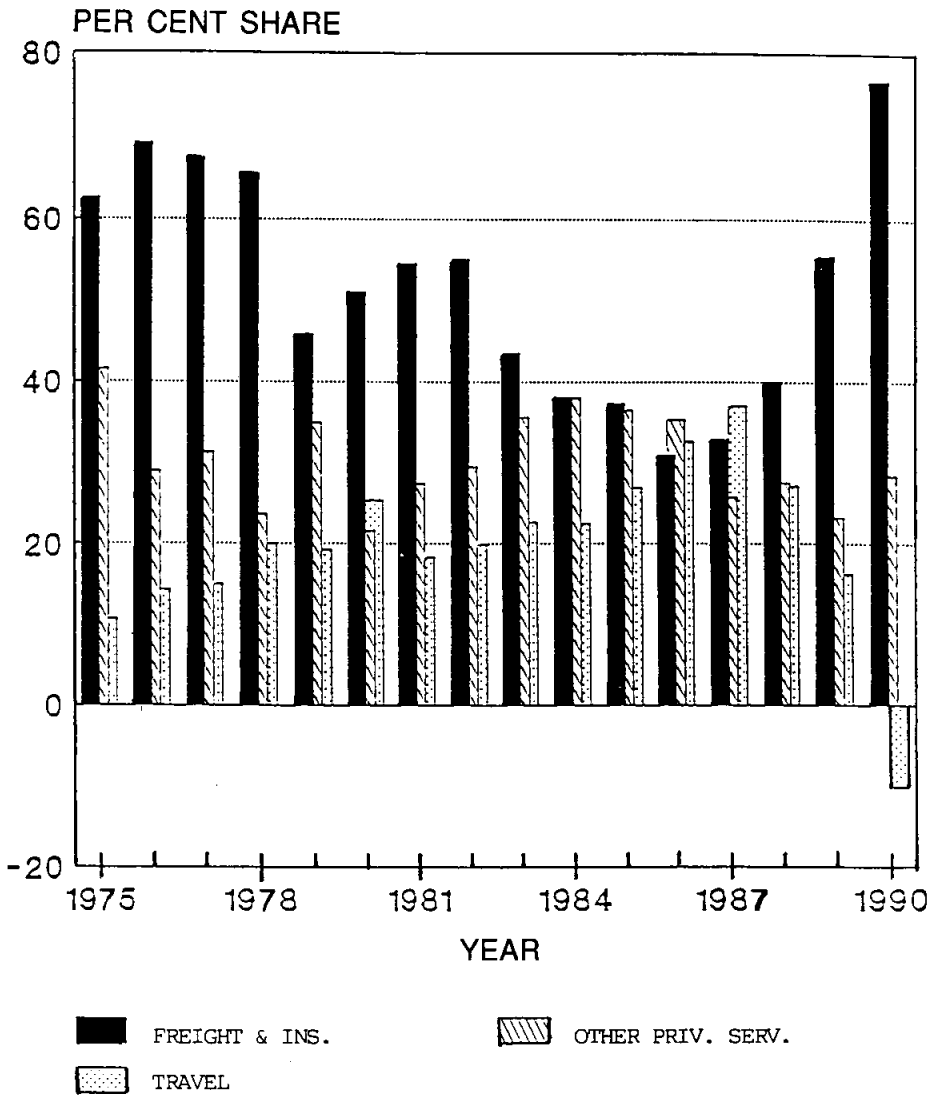


Table 4.5
COMPONENTS OF NON-FACTOR SERVICES ACCOUNT
(Million US Dollars)

Year	Freight and insurance	Other transportation	Travel	Other official services	Other private services	Total non-factor services
1975	-258 (62.5)	41 (-9.9)	-44 (10.7)	20 (-4.8)	-172 (41.6)	-414
1976	-285 (69.1)	37 (-8.9)	-59 (14.3)	14 (-3.4)	-120 (29.0)	-413
1977	-359 (67.4)	64 (-12.0)	-80 (15.0)	9 (-1.7)	-167 (31.3)	-533
1978	-458 (65.4)	62 (-8.9)	-140 (20.0)	2 (-0.3)	-166 (23.7)	-700
1979	-602 (46.0)	10 (-0.8)	-253 (19.3)	-6 (0.5)	-459 (35.0)	-1310
1980	-818 (51.1)	-25 (1.6)	-407 (25.4)	-3 (0.2)	-346 (21.6)	-1599
1981	-872 (54.7)	3 (-0.2)	-292 (18.3)	3 (-0.2)	-437 (27.4)	-1595
1982	-921 (55.2)	66 (-4.0)	-332 (19.9)	12 (-0.7)	-493 (29.5)	-1668
1983	-918 (43.6)	23 (-1.1)	-476 (22.6)	15 (-0.7)	-751 (35.6)	-2107
1984	-905 (38.2)	-43 (1.8)	-533 (22.5)	10 (-0.4)	-902 (38.0)	-2373
1985	-747 (37.4)	26 (-1.3)	-537 (26.9)	-12 (0.6)	-727 (36.5)	-1997
1986	-506 (31.1)	57 (-3.6)	-530 (32.6)	-73 (4.6)	-573 (35.3)	-1625
1987	-470 (33.0)	18 (-1.3)	-527 (37.0)	-77 (5.4)	-367 (25.8)	-1423
1988	-791 (40.1)	-17 (0.9)	-536 (27.2)	-83 (4.2)	-544 (27.6)	-1972
1989	-1118 (55.5)	-1 (0.1)	-329 (16.3)	-96 (4.8)	-470 (23.3)	-2016
1990	-1414 (76.8)	-7 (0.3)	188 (-10.2)	-84 (4.6)	-525 (28.5)	-1840

Note: Figures in parentheses represent % share of services deficit.

terms of net payments, freight and insurance accounted for 50-70 per cent of deficit before 1980, 38-55 per cent between 1981-85 and increasing thereafter to 77 per cent in 1990. Up to the early 1980s, Malaysian ships and air carriers, as well as local insurance companies could only provide limited services and Malaysia depended highly on foreign shipping and insurance services. However, the net outflow slowed down after 1982, with the increased carriage of goods by Malaysian ships, particularly in the transportation of liquefied natural gas, palm oil and petroleum. Malaysian shipping companies and the national airline, recently, undertook an expansion exercise to increase Malaysia's cargo carriage capacity. However, due to structural changes in the Malaysian economy which resulted in Malaysia being at the "take-off" stage of the investment cycle, imports, particularly of capital goods, has been increasing tremendously. Consequently, the payments for freight and insurance also rose substantially, leading to a net outflow of almost 80 per cent of the non-factor services deficit in 1990.

2.3.2 Other Private Services

The other private services item comprises all other services transactions not included in other components. These include labour income, management, consultancy and agency fees, communication fees, commissions, rents and royalties, non-merchandise insurance and other miscellaneous services. The net payments of this item represents the second largest services of the total non-factor services deficit. Net outflows for this item peaked in 1984. Payments made were largely in the form of contract and professional services such as those provided by foreign contractors in turnkey projects as well as refinery services for crude oil refinery in Singapore and exploration for petroleum by foreign oil companies.

2.3.3 Travel

The travel item in the non-factor services account consists of business and leisure travel, education and pilgrimage. Travel has emerged to become a major component in the services account. Between 1976-85, the deficit in this item grew at an average annual rate of 28 per cent. However, after 1985, this deficit began to improve significantly and recorded a surplus in 1990. This surplus actually led to an improvement in the deficit of the overall services account.

a. Business and Leisure Travel

Outflows for business and leisure travel accounted for more than half of total travel payments. This reflected better travel arrangements and rising affluence due to economic growth while business travel remained necessary due to Malaysia's open economy and the policy to promote exports. Between 1981-85, travel outflows grew at an average annual rate of 14 per cent before declining to 7 per cent between 1986-90. On the other hand, travel receipts grew at an average annual rate of 15 per cent between 1976-80; 20 per cent between 1980-85 and 24 per cent between 1986-90. The balance on business and leisure travel item, since 1980, recorded deficits only in 1980, 1984 and 1985.

b. Education

Payments for education accounted for about 40 per cent of total travel payments. Between 1980-85, these payments grew at an average annual rate of 11 per cent before declining to 6 per cent between 1986-90. In the 1970s and the early 1980s, payments for education accelerated sharply as the number of students seeking higher education abroad increased rapidly.

III. Problems and Issues

3.1 Shipping and Air Transport Industry

The basic reason leading to the substantial deficits in the freight and insurance component is the disproportionate development of the Malaysian shipping and air transport sectors in relation to the expansion in Malaysian trade. The heavy reliance on foreign shipping services has resulted in an undeveloped shipping industry and contributed substantially to the services deficit in the balance of payments. Numerous problems plague the local shipping industry. These problems are:

- Limited local shipping capacity;
- Shipping practices of selling f.o.b. and buying c.i.f.;
- Mismatch of cargo and shipping space;
- Lack of incentives for the development of the industry;
- Inadequate supply of qualified seamen;
- Insufficient port services and facilities;
- Administrative machinery is too scattered; and,
- Limited financing for the industry.

Problems are also faced in shipping-related services, such as:

- A large amount of marine and cargo insurance undertaken by external insurers due to lack of local expertise in the insurance field.
- Slow progress in the shipbuilding and shiprepair industry.
- Lack of haulage and forwarding services provided by local companies.

These problems are faced by the shippers (exporters and importers) ship and aircraft owners (shipping and airline companies) and shipping-related services providers (haulage companies, local insurance industry, ports and shipyards) and encompass infrastructural, administrative and financing problems. Problems faced by this industry is inter-related and cut across the whole transportation system of the country. These linkages and interdependence make problem-solving extremely difficult, as issues cannot be addressed on a piecemeal or on an ad hoc basis.

Market access issues on shipping and air transport industry is summarised as follows:

Shipping Industry: Market Access Issues

Type of regulation	Implications for foreigners
a. Setting up shipping operations in Malaysia	. No legal impediments for foreigners
b. Registration of ships	. Certain restrictions: - principal place of business is in Malaysia. - majority shareholding of the owner company held by Malaysians. - 3/5 of total number of directors are Malaysians.
c. Cabotage policy	. Only restricted to Malaysian operators unless for special requirements which cannot be fulfilled by Malaysian registered ships.
d. Cargo reservation	. No such policy

e. Government cargo carriage	. Only on Malaysian ships
f. Tax incentives	. Only for Malaysian shipping operators or users of Malaysian ships.
g. Employment of foreigners	. No restrictions

Air Transport Industry: Market Access Issues

Type of regulation	Implications for foreigners
a. Regulation of routes	. Only through reciprocal air transport agreements between Governments.
b. Setting up of new airline company	. Prohibited to locals and foreigners
c. Domestic routes	. Monopoly held by Malaysian Airline System.
d. Airport charges and facilities	. Preferential treatment for Malaysian Airline System.
e. Employment of foreigners	. No restrictions

These legislations and policies are essential to encourage the development of the Malaysian shipping industry. Their removal or relaxation could be to the advantage of foreign shipping companies with their vast network of contracts and arrangements, resulting in the continuation of higher payments abroad while limiting the development of the Malaysian shipping industry.

3.2 Tourism Industry

Tourism has made a positive contribution to the balance of payments with earnings reaching about US\$1.7 billion in 1990 and exceeded tourism payments to record a surplus of US\$0.8 billion. Tourism was accorded a priority status in 1984 and the Government gave its full attention to develop this industry. However, while this industry appears successful, much more can be done since tourism earnings must be increased sufficiently to offset the services account deficit. Currently, tourism earnings account for about 40 per cent of total receipts and this contribution is still insufficient as the services account deficit will likely to increase. Furthermore, compared to other ASEAN countries, Malaysia recorded the lowest tourism earnings in 1989. Problems in the tourism industry that need to be addressed:

- Administration and co-ordination of tourism projects need to be streamlined.
- Limited accessibility into the country.
- Airport facilities need to be upgraded.
- Since Singaporeans account for two-thirds of foreign tourists to Malaysia, development of the second causeway between Johor and Singapore need to be expedited.
- The maintenance of tourist resorts needs to be upgraded, particularly to deal with pollution and erosion.
- Domestic tourism should be encouraged.

The tourism industry comprise hotels, travel agencies and transportation companies. However, foreign participation in tourism activities is negligible despite the liberal stance taken in terms of foreign participation. The market access issues in the tourism industry in Malaysia is summarised, as follows:

Type of activity	Implications for foreign participation
a. Hotel industry	Foreign equity allowed up to 100 per cent for first five years of operation, following which the equity will be restructured to a minimum of 49 per cent local participation.
b. Tour and travel agents (including operation of outbound travel)	Foreigners allowed up to 40 per cent of total equity of a tour agency.
c. Overseas travel by Malaysians	No restrictions

Although greater foreign participation could help enhance the image of Malaysia as an international holiday destination, its benefits must be evaluated. Higher repatriation of profit and dividend must be offset by higher tourism receipts.

3.3 Education Services

Education outflows abroad has contributed significantly to the services deficit in the balance of payments. These outflows have

increased steadily as domestic institutions of higher learning were unable to absorb the increasing number of students seeking higher education. Other contributory factors include the limited curriculum in local institutions and concerns over the compatibility between the medium of instruction and job requirements in the private sector. In 1990 alone, Malaysia spent an estimated US\$0.6 billion or 40 per cent of total travel payments on education. These payments support over 50,000 Malaysians students overseas. Almost two-thirds of these students are privately sponsored. A majority of those studying are in the United States, United Kingdom and Australia. Other factors that contribute to these large education payments are:

- Free access to education opportunities abroad.
- Perception that overseas education is superior.
- Need to send students abroad for specialised studies not available locally.
- Aggressive marketing by foreign institutions of higher learning.

Foreign participation in education services in Malaysia is a new phenomenon and is on a very small scale. There are no significant obstacles to the export of education services by developed countries to Malaysia. The export of education to Malaysia has been through the movement of consumers (Malaysian students) to the producing nations rather than through the establishment of institutions by foreigners in Malaysia. There are no restrictions on students wishing to study in various institutions abroad. The present exchange control regime in Malaysia is very liberal, permitting students to transfer any amount of foreign currency required for the financing of education expenditure. There are also no restrictions placed on foreign institutions of higher learning to market their educational services in the country.

Nevertheless, there exist some rules prohibiting the export of education by developed countries through the establishment of commercial presence in Malaysia:

- Legislation governing the education industry requires that the institution, whether domestic or foreign, obtain prior approval

from the Government to operate in Malaysia, and the consent is given on a case-by-case basis.

- Employment of foreigners in Malaysia is permitted provided that local expertise is not available. There is a quota that states that only 10 per cent of total teaching staff could be foreigners.
- In the case of "twinning" and "transfer" colleges/universities, licensing requirements clearly stipulate that:
 - Ownership of these institutions must be 100 per cent Malaysian (with 30 per cent Bumiputera participation);
 - The Principal and Members of the Board must be Malaysian citizens; and,
 - Malaysians must be given preference in the selection of teaching staff.
- Existing legislations on education do not explicitly state the required medium of instruction. The Federal Constitution, however, states that the statutory authorities are required to use the national language. As universities are regarded as statutory bodies, the medium of instruction should be the national language. The International Islamic University was set up under the Companies Act, so that this interpretation was not applicable.

3.4 Insurance Services

The inability of Malaysian insurance industry to provide adequate services for merchandise and non-merchandise insurance led to the almost total dependence on foreign companies to underwrite insurance, especially merchandise insurance. Consequently, this resulted in substantial outflows for insurance services. The insurance industry in Malaysia has been plagued by numerous problems mainly in the form of excessive competition, unsound practices, low capitalisation, underinsurance, lack of expertise, instable growth and low profitability. This industry is undergoing structural changes in order to address these problems.

Foreign participation in the Malaysian insurance industry is already significant. The following summarises some market access issues in this industry.

Insurance Industry: Market Access Issues

Type of regulation	Implications for foreign participation
a. Present foreign participation	- Being restructured to local equity. - Insurance Act, 1963 allows foreign companies to operate through branch offices in Malaysia. - No new foreign branches allowed. - Foreign equity allowed in existing companies.
b. Insurance of properties, ships and aircrafts located or registered in Malaysia	- Foreign insurance placements prohibited. - Reinsurance allowed if insufficient local capacity and expertise.
c. Tax incentives	Only for local companies and users of local insurance.

IV. Policy Measures

Since 1980, Malaysia recognised that concerted efforts will be required to address the urgent need to narrow the services deficit. The same year saw the establishment of the Council on Malaysian Invisible Trade (COMIT) to advise the Government on issues relating to the country's trade in services and recommend measures to foster the import substitution of Malaysia's services payments and promote the export of services. The Council has undertaken studies on all aspects of the services account and made recommendations on policy measures for the Government to consider in arresting the growth of the services deficit and promote the invisible trade.

4.1 Shipping Industry

A number of incentives and measures were undertaken to develop this services sector.

- (a) Steps were taken to increase the carriage of goods, particularly palm oil, saw logs, liquified natural gas and crude petroleum, by Malaysian ships. This led to higher receipts for freight component.
- (b) The Cabotage Policy was introduced in 1980 to phase out the use of foreign-flag ships in the area of coastal shipping. The implementation of this policy has been successful and effective.
- (c) Port facilities and services were further developed and improved.
- (d) Priority was given to Malaysian shipping in all Government imports whenever such services are available.
- (e) Shippers are encouraged to export on c.i.f. basis and import on f.o.b. basis. This was done through persuasion and education since shippers lack the skills to offer attractive terms in order to trade in such a manner.
- (f) Several fiscal incentives were introduced to assist in the development of this industry.
 - Tax exemption for income earned from sea transportation business on a Malaysian ship.
 - Exemption of tax on dividends distributed from the income of a shipping enterprise.
 - Unconditional tax exemption to any person (foreign or local) for income derived from employment on board a Malaysian ship.
 - Surtax of 5 per cent on ships above 26 grt. was abolished in order to assist the local shipbuilding industry which concentrates in building small ships.
 - Import of components for the local shipbuilding industry is tax exempted.
- (g) Expansion of the cargo carriage capacity through the purchase of new aircraft and ships.

The above measures undertaken has to some extent improved the performance of the Malaysian shipping industry. Although outflows on freight and insurance remained substantial, the share of this item's deficit in the total services deficit has declined progressively between 1982-87. However, the direct relationship between payments for freight and insurance and the volume of imports still prevail and since Malaysian imports have been increasing substantially, freight payments also experienced significant increases, especially in 1989 and 1990. Hence, in order to check the growth in the net outflows of freight and insurance, higher earnings or the import substitution of freight services would be required. This would only materialised with the expansion in the Malaysian shipping fleet which is currently being done.

4.2 Tourism Industry

The tourism industry was accorded a priority status in 1984 and had since achieved considerable success in making tourism a major foreign exchange earner for the country. Among measures taken to increase earnings from tourism were:

- (a) A ministry to spearhead and co-ordinate the orderly development of the tourism industry was established in 1987.
- (b) Intensified efforts to promote Malaysia as an international tourist destination. This included extensive promotion and marketing and the declaration of 1990 as the Visit Malaysia Year.
- (c) Measures were also taken to improve accessibility into the country and these included the increase of flight frequencies, charter flights and plans to expand airport facilities.
- (d) A variety of tourist products were planned and made available to local and foreign tourists.
- (e) Fiscal incentives were given to the tourism sector:
 - Incentives under the Promotion of Investments Act, 1986 for tourist projects and hotels such as pioneer status, investment tax allowance and industrial building allowance.
 - The exemption on income for tour operators who bring in at least 500 foreign tourists through group inclusive tours.

- Double deduction on expenditure incurred on overseas promotion.
- Double deduction on training expenses.
- Import duty and excise duty and CKD components for locally assembled tour buses were abolished.
- Sales tax on pewterware abolished.
- Exemption level for service tax on hotels was increased from 6 to less than 25 rooms.

These measures have been effective in helping to develop the tourism industry into a major foreign exchange earner and this has resulted in substantial growth in tourism earnings, especially in 1990, which led to reductions in the deficit in the travel item since 1985 before reverting to a surplus in 1990. The success in this industry is illustrated in the Table 4.6.

4.3 Education Services

Since 1986, the Malaysian Government had taken several measures to stem the large outflows on education payments:

- (a) Suspended all Government scholarships for studies abroad for pre-university studies such as A Levels and matriculation courses.
- (b) Confined the awards of scholarships abroad to areas of study which were not being offered by local universities.
- (c) Encourage the "twin-university" programmes.
- (d) Increased the intake of students in local universities.

While the measures above provide relief for the interim period, in the long term, outflows for education would continue to be substantial. Hence, the fundamental problems, i.e. inadequate local facilities and insufficient private investments in education, need to be addressed.

Table 4.6**TOURIST ARRIVALS AND EARNINGS**

Year	Tourist arrivals (million)	Tourism earnings (Billion US Dollars)
1981	2.3	0.4
1982	2.6	0.5
1983	2.8	0.6
1984	2.8	0.6
1985	2.9	0.6
1986	3.0	0.6
1987	3.1	0.7
1988	3.4	0.8
1989	4.6	1.0
1990	7.1	1.7

4.4 Insurance Services

The problematic insurance industry of Malaysia had been put under the supervision of the Central Bank since 1988. Greater retention capacity and consequent redirection in net insurance outflows were addressed through the following measures:

- (a) All Government imports to be shipped on f.o.b. basis unless exempted.
- (b) Although no compulsory requirements have been imposed through legislation, exporters have been encouraged through persuasion and education to export on c.i.f. basis and not on f.o.b. basis.
- (c) Double tax deduction on premiums for import cargo to a Malaysian importer if cargo is insured locally.
- (d) Steps to establish a market pooling of large risks.
- (e) Review of legislation on insurance to further safeguard the interests of policy holders, develop prudential management of the industry and strengthen the supervisory machinery.
- (f) Instituted efforts to improve reinsurance arrangements by increasing retention capacity of local companies.

4.5 The Uruguay Round

Since the Uruguay round of Multilateral Trade Negotiations has yet to conclude, it would be difficult to assess the impact the Uruguay Round would have on the trade in services in Malaysia as well as future implementation plans. Nevertheless, the Malaysian services sector, as a whole, is already liberal. Further relaxation of present restrictions on foreign equity participation in this sector could result in a marked acceleration in the outflows of profits in the future. However, it is also recognised that any adverse effects of liberalisation on the balance of payments could be compensated by other benefits to the economy. In several sector, especially education and shipping, the outflows of profits and dividends could be offset by inflows of foreign exchange in the form of export receipts and capital investments. Furthermore,

gains could be realised in the form of employment opportunities, technology transfer, greater efficiency and better standards of performance.

V. Major Findings and Concluding Remarks

Malaysia is traditionally a net exporter of services. In terms of magnitude, the net services outflows in the balance of payments has grown markedly from US\$413 million in 1975 to US\$1,839 million in 1990. Given the importance of the services account throughout the decades, the role of services in the development process has received much policy consideration. In spite of the open nature of the Malaysian economy, which renders many of the services payments as necessary to the system, there is still potential to contain the size of the net services deficit by various policy measures, without jeopardising growth and employment.

Through the careful implementation of several policy recommendations, improvements in the services account are being reflected as follows:

- impressive growth in tourist receipts;
- markedly slower growth in education payments; and,
- higher earnings by shipping and airline companies through fleet expansion exercises.

As a result, in 1990, the services account deficit recorded an improvement for the first time. However, much more need to be done in the area of services so that it can continue to support and complement the major productive sectors of the economy, namely manufacturing and petroleum sectors. As with other developing countries, Malaysia needs to carve a niche in the international trade in services of banking, insurance, transportation and tourism.

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Chapter 5

TRADE IN SERVICES IN NEPAL

by
R. B. Thapa

I. An Overview of the Development of Trade in Services in Nepal

1.1 Concepts and Definitions

'Trade in Services' is one of the most controversial issues in the field of international trade. The importance of the services is growing day by day, so are the contentious issues surrounding it. Accounting for nearly one-fourth of world exports in merchandise, the services sector has emerged as one of the most significant agenda items to be reckoned with in the global trade negotiations. In fact, the present negotiations in trade in services in the 'Uruguay Round' was started by the USA. It was then decided to include the services under the GATT rules and procedures when the ministerial meeting was held in Punte Del Estate of Uruguay in September 1986. The objectives behind the inclusion of trade in services in negotiation was, as stated, to expand such trade under the condition of transparency and progressive liberalisation, to promote the economic growth of all countries and most important the development of developing countries.

As there is no common opinion regarding the concept of services, different organisations and authorities have defined it in a different manner. In Nepal, the International Monetary Fund (IMF) concept of definition of services have been used. In compiling Balance of Payments (BOP) data, as per IMF, only non-factor service transactions between residents and non-residents have been constituted as internationally traded services. While preparing the services data for BOP, we have included items in the various components of services as follows:

1.1.1 Freight and Insurance on Merchandise

The entry is made for freight paid on exports to overseas countries which also includes transit cost through India. Data on freight and insurance on imports are not available separately. In this regard, IMF

is making an estimate of 5.5 per cent of imports as cost of shipment. Attempts are also being made to estimate the freight and insurance on imports.

1.1.2 Other Transportation

The receipt side of this item covers passenger fares earned from non-residents by Nepalese airline as well as transport companies and operating expenses of foreign airline in Nepal. The payment side includes operating expenses abroad the domestic airline and passenger fares paid by Nepalese to foreign airlines.

1.1.3 Travel

The receipt side of this item covers the receipts from foreign visitors classified as tourists, mountaineering expedition and trekking teams as well as other official visitors. The payment side includes the sales of foreign exchange to Nepalese officials, businessmen, students and visitors for expenses abroad.

1.1.4 Investment Income

Income from investments of the Nepal Rastra Bank (Central Bank) is included in this item whereas payments side covers interest and other charges paid on external loans by the Government, financing institutions and other private sectors.

1.1.5 Government, n.i.e.

Receipts from expenditures of embassies and consular of foreign governments in Nepal are recorded as receipts while the payment includes the expenditure of Nepalese diplomatic mission abroad.

1.1.6 Other Services

This item includes all transactions in services between residents and non-residents not included in any of the item mentioned above. It comprises receipts and payments in respect of management fees, agents fees, commissions, press subscriptions, communication and advertising charges. It include also income of overseas workers and other personnel working abroad as well as in India and Nepal.

Table 5.1

COMPONENTS OF TRADE IN SERVICES

(Million US Dollars)

	1975/76	1976/77	1977/78	1978/79	1979/80	1980/81	1981/82	1982/83	1983/84	1984/85	1985/86	1986/87	1987/88	1988/89	1989/90
Services Net	18	34	40	57	61	84	95	106	89	61	80	109	47	106	79
1. Receipts	55	68	83	111	129	169	163	168	162	148	174	211	213	220	201
1.1 Freight and Insurance on Merchandise	-	-	-	6	8	10	-	-	9	11	8	11	8	3	4
1.2 Other Transportation	3	3	4	6	8	10	10	11	11	11	8	11	8	3	4
1.3 Travel	17	23	29	42	54	65	65	61	37	41	54	81	79	108	110
1.4 Government n.i.e.	11	13	18	25	25	39	39	46	74	60	66	62	62	55	38
1.5 Other Services	24	29	32	38	42	46	49	50	42	36	46	57	64	54	49
2. Payments	37	34	43	54	68	77	68	62	73	87	94	102	116	114	122
2.1 Freight and Insurance on Merchandise	3	4	4	6	6	4	3	1	2	4	7	6	7	8	16
2.2 Other Transportation	3	3	4	6	7	9	10	8	7	11	14	19	19	5	7
2.3 Travel	13	14	16	20	26	24	22	24	21	32	26	32	38	48	42
2.4 Government n.i.e.	2	2	3	3	4	4	5	5	6	4	4	5	6	7	7
2.5 Other Services	16	11	16	19	25	36	28	25	37	36	43	40	46	46	50
3. Service Net	18	34	40	57	61	84	95	106	89	61	80	109	97	106	79
3.1 Freight and Insurance on Merchandise	-3	-4	-4	-6	-6	-4	-3	-1	-2	-4	-7	-6	-7	-8	16
3.2 Other Transportation	-	-	-	-	1	1	-	3	2	-	-6	-8	-11	-2	-3
3.3 Travel	4	9	13	22	28	42	43	37	16	9	28	49	41	60	68
3.4 Government n.i.e.	9	11	15	22	21	35	34	41	68	56	62	57	56	48	31
3.5 Other Services	8	18	16	19	17	10	21	26	5	-	3	17	18	8	-1
Exchange Rate	12.13	12.45	12.27	11.90	11.90	11.90	12.90	13.78	15.40	17.76	19.61	21.53	22.03	25.37	28.48

Table 5.2
COMPONENTS OF TRADE IN SERVICES
(in Per Cent)

	1975/76	1976/77	1977/78	1978/79	1979/80	1980/81	1981/82	1982/83	1983/84	1984/85	1985/86	1986/87	1987/88	1988/89	1989/90
1. Receipts	100	100	100	100	100	100	100	100	100	100	100	100	100	100	100
1.1 Freight and Insurance	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
1.2 Other Transportation	5.5	4.4	4.8	5.4	6.2	6.2	6.1	6.5	5.6	7.4	4.6	5.2	3.8	1.4	2.0
1.3 Travel	30.9	33.8	34.9	37.8	41.9	40.4	39.9	36.3	22.8	27.7	31.0	38.4	37.1	49.1	54.7
1.4 Government n.e.	20.0	19.1	21.7	22.5	19.4	24.2	23.9	27.4	45.7	40.6	37.9	29.4	29.1	25.0	18.9
1.5 Other Services	43.6	42.7	38.6	34.2	32.5	28.6	30.1	29.8	25.9	24.3	26.5	27.0	30.0	24.5	24.4
2. Payments	100	100	100	100	100	100	100	100	100	100	100	100	100	100	100
2.1 Freight and Insurance	8.1	11.8	9.3	11.1	8.8	5.2	4.4	1.6	2.7	4.6	7.4	5.9	6.0	7.0	13.1
2.2 Other Transportation	8.1	8.8	9.3	11.1	10.3	11.7	14.7	12.9	9.6	12.6	14.9	18.6	16.4	4.4	5.7
2.3 Travel	35.1	41.2	37.2	37	38.2	31.2	32.4	38.7	28.8	36.8	27.7	31.4	32.8	42.1	34.4
2.4 Government n.e.	5.4	5.9	7	5.6	5.9	5.2	7.3	8.1	8.2	4.6	4.3	4.9	5.2	6.1	5.8
2.5 Other Services	43.5	32.3	37.2	35.2	36.8	46.7	41.2	38.7	50.7	41.4	45.7	39.2	39.6	40.4	41.0

Payments made to foreign consultants and contractors for their services rendered in various government project construction activities are also included in the payment side of this item. Income from people working in the Indian and British Army is also included in the receipt side of this component.

II. Role of Trade in Services

Trade in services has played a vital role judging from its contribution to the domestic economy and to international trade. The share of total services to GDP at constant price has been increasing gradually over the last 15 years i.e., from 29.5 per cent of GDP in 1975/76 to 116.2 per cent in 1989/90. Similarly, the share of services to GDP at current prices is also increasing slowly. Total value of services has increased from US\$420 million in 1975/76 to US\$1206 million in 1989/90. The total value of services is increasing yearly. Only in 1989/90, it has decreased to some extent because of the impasse in the trade and transit relation with India.

The share of service exports to total exports of goods and services has increased from 35.5 per cent in 1975/76 to 52.5 per cent in 1989/90. However, the share of services imports to total imports of goods and services has shown a downward trend till 1982/83 and since then started to record an increasing trend, reaching 15.0 per cent in 1981/82 and remained more or less at this level thereafter.

The share of service exports to merchandise exports has increased from 55.0 per cent in 1975/76 to 110.4 per cent in 1989/90. This was due to a slower increase in merchandise exports as compared to the service exports. Meanwhile, the share of service imports to merchandise imports has remained stable around 20 per cent for most years except for fiscal year 1982/83 (it was only 13.5 per cent of total merchandise imports).

The export of services has shown an increasing trend. Total service exports were US\$55 million in 1975/76 and it went up to US\$201million in the year 1989/90. The import of services have also been registering an increasing trend. Service imports have increased from US\$37 million in 1975/76 to US\$122 million in 1989/90. Both the exports and imports of services have increased more than 3 times during the review period.

Table 5.3

RATIO OF SERVICES

(in Per Cent)

	1975/76	1976/77	1977/78	1978/79	1979/80	1980/81	1981/82	1982/83	1983/84	1984/85	1985/86	1986/87	1987/88	1988/89	1989/90
1. Total Value of Services/B.O.P. (At Constant Prices)	29.5	33.9	38.6	41.2	46.9	52.5	56.6	65.0	66.5	77.2	85.1	99.2	107.0	113.1	116.2
2. Total Value of Services/B.O.P. (At Current Price)	29.3	34.9	36.4	35.3	37.4	38.8	38.2	39.1	37.6	41.1	41.6	42.9	42.7	41.2	38.7
3. Total Value of Service Exports/ Total Exports (Goods & Services)	35.5	41.5	48.8	50.2	56.8	54.2	58.4	67.2	59.3	48.8	52.6	60.3	53.3	57.0	52.5
4. Total Value of Service Imports/ Total Imports (Goods & Services)	18.1	17.2	17.3	18.1	18.5	17.1	15.0	11.9	14.7	16.6	16.4	16.7	15.5	15.1	15.9
5. Total Value of Service Exports/ Merchandise Exports	55.0	70.8	95.4	100.9	131.6	118.4	140.5	204.9	145.9	95.5	110.8	151.8	113.9	132.5	110.4
6. Total Value of Service Imports/ Merchandise Imports	22.2	20.7	21.0	22.0	22.7	20.6	17.7	13.5	17.2	19.9	19.7	20.1	18.4	17.8	18.9

Receipts from net non-factor services have also shown an upward trend. For instance, net non-factor services in 1975/76 which stood at US\$18 million went up to US\$79 million in 1989/90.

The trade balance of goods and services of Nepal has always been in deficit and is increasing yearly due to the heavy increase in merchandise imports. Merchandise imports have increased drastically from US\$167 million in 1975/76 to US\$645 million in 1989/90. Meanwhile, merchandise exports have not increased as much as merchandise imports. In spite of the huge trade deficit, the positive balance on the services account has improved the trade balance of the goods and services.

Nepalese balance of payments have been characterised by a continuous deficit in the trade balance. Export growth has slowed down, largely reflecting low output growth and weak investment in the productive sector. On the other hand, net receipts from the services sector particularly tourism as well as net inflow of official grants have risen strongly. As a result the current account deficit has remained substantially below the trade deficit. The overall balance of payments has been in surplus for many years because of the increase in concessional loans. Nepal's balance of payments position was comfortable for many years except for 1982/83 to 1984/85. The deterioration in the balance of payments position was tolerable for many years except for 1982/83 to 1984/85. The deterioration in the balance of payments during this period had occurred largely on account of huge trade deficit. The devaluation of the Nepalese rupee in November 1985 by 14.7 per cent vis-a-vis all other currencies had, however, improved the overall balance of payments remarkably after 1985/86.

Nepal is a developing country with abundant labour but relatively lacking in capital and advanced technology. The main sources of income in trade in services are labour-intensive type such as travel and services of Nepalese working abroad while payments are of intermediate services with high capital and technology intensive type. On a net basis, Nepal has experienced favourable balances in the service trade. The net receipts for non factor services has increased from US\$18 million to US\$106 million in 1989/89 with ups and down in some years. Total receipts from services have been increasing almost every year during 1975/76 to 1989/90 period except for 1983/84, 1984/85 and 1987/88. As Nepal is a unique place in the world in terms of its scenic beauty

Table 5.4
GROSS DOMESTIC PRODUCT, EXPORTS AND IMPORTS
(in Million US Dollars)

	1975/76	1976/77	1977/78	1978/79	1979/80	1980/81	1981/82	1982/83	1983/84	1984/85	1985/86	1986/87	1987/88	1988/89	1989/90
1. GDP (at current prices)	1434	1388	1608	1867	1962	2295	2402	2450	2558	2501	2572	2752	3126	3085	3115
2. GDP (at constant 1974/75 prices)	1426	1431	1516	1601	1564	1694	1622	1473	1446	1331	1257	1190	1247	1125	1038
3. Merchandise Trade Balance	-67	-68	-118	-135	-202	-237	-268	-378	-313	-282	-321	-369	-444	-476	-463
4. Total Merchandise Export	100	96	87	110	98	136	116	82	111	155	157	139	187	166	182
5. Total Merchandise Import	167	164	205	245	300	373	384	460	424	437	478	508	631	642	645
6. Trade Balance (Goods & Services)	-49	-34	-78	-78	-141	-153	-173	-224	-221	-221	-241	-260	-317	-370	-384
7. Total Export (Goods & Services)	155	164	170	221	227	297	279	250	273	303	331	350	400	386	383
8. Total Import (Goods & Services)	204	198	248	299	368	450	452	522	497	524	572	610	747	756	767
9. Net Services	24	40	46	66	73	94	107	119	92	61	81	108	94	120	92
10. Current Account	5	20	-24	3	-29	-25	-30	-121	-87	-104	-140	-135	-208	-249	-272
11. Capital Account	25	4	25	46	31	41	69	72	79	56	154	153	311	252	366
Official Capital, Net	12	17	24	36	49	53	60	67	78	72	92	88	200	233	207
Private Capital, Net	13	-13	1	10	-18	-12	9	5	1	-16	62	65	111	19	159
12 Overall B.O.P. (-increase)	-30	-25	-1	-45	-2	-16	-39	49	8	49	-29	-17	-103	-3	-93
Exchange Rate (Annual average per unit of US\$)	12.13	12.45	12.27	11.90	11.90	11.90	12.90	13.78	15.40	17.76	19.61	21.53	22.03	25.37	28.48

and rich cultural heritage, tourism has played a vital role in foreign exchange receipt in the services account. Total receipts from services have increased from US\$55 million in 1975/76 to US\$201 million in 1989/90. Total payments for services have also increased from US\$37 million in 1975/76 to US\$122 million in 1989/90.

India is Nepal's biggest single trading partner and, therefore plays a major role in Nepal's service trade. It accounts for nearly 50 per cent for most years during the period of 1975/76 to 1989/90.

III. Problems and Policy on Trade in Services

Despite the fact that Nepal is enjoying a surplus in the services trade, it has a lot of problems. There is no adequate infrastructural facilities to facilitate the services sector. There is a lack of advanced technology as well as insufficient budget allocations for the development of the services sector. There is also no long-term plan for the advancement of the services sector.

Foreign investment is negligible in Nepal although the Government has granted many incentives for foreign investors. Only recently a few foreign banks have come and started working in collaboration with Nepalese banks, government and individual.

Receipts from tourism could have increased significantly but it was not possible because of a lack of infrastructural development. There is a lack of hotels and transport facilities to inner parts of the country. Past experiences have shown that tourists are interested in taking mountain flights to view the snow-capped mountains. But Nepal's national carrier is inadequate in providing sufficient facilities so far. Access to the international market is also limited because of the scarcity of aeroplanes and lack of linkages to various countries.

The government has been paying attention in recent years to promote the tourist industry. The government of Nepal has signed a loan agreement with the Asian Development Bank for the development of infrastructure related to tourism. Nepal's national carrier has increased the number of flights and has also diversified its flights to the European countries.

IV. Concluding Remarks

It has been clearly illustrated that trade in services in Nepal played a vital role in bringing down its current account deficit. Although Nepal is enjoying a surplus in the services account, there is much room for improvement. Surplus in the services sector can be increased significantly for example, by promoting tourism in Nepal.

GROSS DOMESTIC PRODUCT (At Current Prices)

(Million US Dollars)

	1976	1977	1978	1979	1980	1981	1982	1983	1984	1985	1986	1987	1988	1989	1990	Average Annual Growth Rate
GDP	1,434.0	1,388.0	1,608.0	1,867.0	1,962.0	2,295.0	2,402.0	2,450.0	2,558.0	2,501.0	2,572.0	2,732.0	3,126.0	3,085.0	3,115.0	4.9
Growth rate	-9.1	-3.2	15.9	16.1	5.1	17.0	4.7	2.0	4.4	-2.2	2.8	7.0	13.6	-1.3	1.0	
Agriculture	957.0	844.0	958.0	1,137.0	1,150.0	1,318.0	1,388.0	1,386.0	1,479.0	1,361.0	1,368.0	1,429.0	1,626.0	1,662.0	1,757.0	
Growth rate	-13	-11.8	13.5	18.7	1.1	14.6	5.3	-0.1	6.7	-8.0	0.5	4.5	14.0	2.2	5.7	3.6
% of GDP	66.7	60.8	59.6	60.9	58.6	57.4	57.8	56.6	57.8	54.4	53.2	51.9	52.0	53.9	56.4	
Industry	57.0	59.0	65.0	71.0	78.0	88.0	96.0	106.0	118.0	113.0	134.0	142.0	166.0	151.0	152.0	
Growth rate	-9.5	3.5	10.2	9.2	9.9	12.8	9.1	10.4	11.3	-4.2	18.6	6.0	16.9	-9.0	0.7	6.4
% of GDP	4.0	4.3	4.0	3.8	4.0	3.8	4.0	4.3	4.6	4.5	5.2	5.2	5.3	4.9	4.9	
Services	420.0	485.0	585.0	659.0	734.0	889.0	918.0	958.0	961.0	1,027.0	1,070.0	1,181.0	1,334.0	1,272.0	1,206.0	
Growth rate	1.2	15.5	20.6	12.6	11.4	21.1	3.3	4.4	0.3	6.7	4.2	10.4	13.0	-4.6	-5.2	7.7
% of GDP	29.3	34.9	36.4	35.3	37.4	38.8	38.2	39.1	37.6	41.1	41.6	42.9	42.7	41.2	38.7	
Others																
Per Capita GDP																

Chapter 6

TRADE IN SERVICES IN THE PHILIPPINES

by

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I. An Overview of the Development of Trade in Services in the Philippines for the Last 15 Years (1976-1990)

1.1 Concepts and Definitions of International Transactions in Services

According to the Revised Outline, researchers are advised to use the IMF definition on trade in services in order to simplify the data collection and calculation as well as to facilitate comparative analysis. In this connection, the outline notes that the IMF considers only non-factor service transactions between residents and non-residents as constituting internationally traded services.

However, page 72 of the BOP Manual considers investment income--which it calls the main type of international factor income--as part of services. Moreover, the Manual states that "The remaining constituents of goods, services and income form a heterogeneous collection. The nature of the transaction varies widely from country to country and, while particular types are important for some countries, any given type tends to be fairly small for some countries, any type tends to be fairly small on a global basis... The residual group of private (nonofficial) services is disaggregated to identify two types, labor income, n.i.e., and property income, n.i.e., that experience has proved to be of particular interest to a number of countries".

Because of the importance of these two types of (factor) services in the services (invisibles) account of the Philippines' BOP and in the national income accounts, factor services as well as non-factor services are included in the coverage of this country chapter.

1.1.1 Definitions

Non-Merchandise Trade (Services or Invisibles)

This includes all transactions in services and other invisible between residents and non-residents.

Freight and Merchandise Insurance (Shipment)

Inflows refer to freight and insurance paid by non-residents to local companies, while outflows refer to freight and insurance paid by residents to foreign companies.

Travel

Inflows represent expenditures of foreign visitors and students in the country, while outflows cover sales of foreign exchange to residents for travel, education, subsistence and other similar expenses abroad.

Other Transportation

Inflows cover payments by non-residents to local carriers for transport of persons, receipts by residents from foreign operators for the time charter of domestically-owned carriers (the first two items refer to passenger services), disbursements by foreign carriers visiting the country (port services) and other earnings of domestic carriers from foreigners. Outflows cover payments by residents to foreign carriers for transport of persons, payments by residents to foreigners for the time charter of foreign-owned carriers, disbursements abroad by domestic carriers visiting foreign countries and other payments to foreign carriers from residents.

Investment Income

Inflows cover inward remittances of earnings, profits and dividends and other investment income accruing to residents including interest earned on placements abroad by the Central Bank, government corporations, and commercial banks. Outflows refer to outward remittances of profits, earnings and dividends and reinvested earnings or investment income of multinationals operating in the Philippines (the contra-entry to reinvested earnings is an inflow to direct investments); interest payments on outstanding foreign loans of the public and private sectors; and interest payments on foreign currency deposits of non-residents.

Government Earnings/Expenditures

Inflows refer to peso purchases of U.S. agencies in the Philippines and to the Economic Support Fund provided to the country. It also

includes other foreign government expenditures in the Philippines for maintenance of diplomatic and consular offices in the country. Outflows refer to remittances for the maintenance of Philippine diplomatic and consular offices abroad.

Non-Merchandise Insurance

Inflows represent insurance premium for life, marine, fire and other insurance risks received by local companies from non-residents. It also includes receipts by residents from foreign insurance companies representing payments on life, marine, fire and other insurance risks. Outflows cover life insurance premium payments made by residents to foreign insurance companies and payments made by resident insurance companies to non-resident beneficiaries.

Personal Income

Inflows refer to earnings and salaries of Philippine seamen and contract workers that are inwardly remitted and sold to the banking system. It also includes salaries/allowances denominated in foreign exchange of resident aliens employed in local banks and other entities. Outflows refer to earnings and salaries paid to foreigners employed in resident firms that are remitted abroad.

Commissions and Fees

Inflows refer to fees paid to local companies or individuals by firms or individuals abroad and earnings of resident agents, underwriters and indentors. Outflows represent fees and reimbursements paid to non-resident firms or individuals by residents and payment to foreign agents, underwriters and indentors. Starting 1981, the outflow entry has included technical fees and other expenses converted into equity, the contra-entry of which constitutes technical fees and other expenses considered as inflows under direct investments.

Construction Activity

Inflows represent earning of construction contracts of local contractors with the U.S. bases in the Philippines and firms abroad. Outflows refer to payments of construction contracts with foreign contractors and foreign firms.

Operating Expenses

Inflows refer to reimbursements for operating expenses of non-bank foreign firms to branches, agencies and representative offices in the Philippines from their head offices, mother companies, affiliates (foreign principals) and other related entities located abroad. Outflows are reimbursements for operating expenses of resident non-bank local firms to branches, agencies and representative offices abroad. In practice, however, since the category "operating expenses" does not appear separately under non-merchandise trade outflows, the outflow transactions are recorded under "other services".

Other Services

Inflows include receipts of local firms for advertising services rendered here or abroad to foreign companies; payments on foreign subscription to local publications; rentals on local motion picture films paid by parties abroad; fees received from non-residents for the use of patents and copyrights; gross receipts from parties abroad for lease of real estate in the Philippines; receipts of local entities on account of postage and use of telegraph, telephone and radio; surrender of foreign exchange withdrawn from Cir. 343/547 deposits and other receipts from services that cannot be classified in the appropriate accounts. Outflows cover international settlement on account of postage, use of telegraph, telephone and radio facilities; payment for advertisements of local firms in publications abroad; payments on exposed motion picture films not bought by local importers; fees paid for the use of foreign patents and copyrights; operating expenses covering maintenance costs of branch offices of Philippine companies abroad; lease payments by PAL and other disbursements for services that cannot be classified in the appropriate accounts.

1.2 The Role of Trade in Services with Respect to its Contribution to the Domestic Economy as well as to International Trade

The statistics generally suggest the expanding role of the services sector in the Philippines.

The service sector occupies a prominent place in the Philippine economy. During the period 1976-1991, this sector accounted for

approximately two-fifths of the country's real gross domestic product or GDP (Table 6.1). In fact, the service sector surpassed both the agricultural and industrial sectors in terms of sectoral contribution to GDP (Table 6.2). In terms of growth rates, the service sector--on the average--grew faster than the agricultural and industrial sectors (4.0 per cent against 2.6 per cent and 2.8 per cent, respectively). Table 6.3 shows that service exports have been playing an increasingly prominent role in the aggregate export trade of the Philippines. From only a little more than 25 per cent in 1976, the ratio of service exports to total exports of goods and services jumped to a high of almost 44 per cent in 1986 and to 38.9 per cent in 1991.

In contrast, Table 6.4 shows that the share of service imports to total imports of goods and services has been relatively erratic. In 1976, the ratio was recorded at 23.7 per cent and this rose to more than 30 per cent during most of the eighties. However, in 1989-1991, the ratio dropped to an average of 27.0 per cent. Notwithstanding the erratic trend in the share of service imports, it must be noted that the value of service imports was on a general uptrend during the review period. Tables 6.5 and 6.6 tell essentially the same story as Tables 6.2 and 6.3, i.e., that while service exports have been growing in importance in proportion to the total export of goods, the relative importance of service imports to merchandise imports has suffered a decline starting in the latter part of the eighties until 1991.

Table 6.7 shows that the balance of trade in service was negative from 1976 to 1984. Starting 1985, however, the services account was generally in surplus (except for 1988 when it reverted to a deficit of \$80 million), with the surplus amount to \$1,351 million in 1991. In 1985 and 1987, the service account was in a balanced position. Table 6.8 shows that the trade in goods and services was almost entirely in a deficit position during the entire review period except in 1986 when it reflected a surplus. The significant and widening shortfall (until 1990) in the trade account was mainly responsible for this development.

Table 6.9 shows that the balance of the current account was generally in deficit during the review period except in 1986 when a surplus of \$954 million was realized. From a deficit of only \$1,050 million in 1976, the shortfall ballooned to \$2,695 million in 1990. This, however, was substantially reduced to only \$1,035 million in 1991. The major factor behind the rise in the current account deficit was the widening

Table 6.1
CONTRIBUTION OF THE SERVICES SECTOR TO
GROSS DOMESTIC PRODUCT

(Million Pesos)

A) At Constant 1985 Prices

Year	Services Sector	GDP	Share of Services to GDP (in %)
1976	28390	73922	38.4
1977	29790	78467	38.0
1978	31542	82784	38.1
1979	33381	87962	37.9
1980	220014	613149	35.9
1981	223618	632594	35.3
1982	238869	655392	36.4
1983	252144	668093	37.7
1984	235677	817329	38.2
1985	230781	571704	40.4
1986	240534	591189	40.7
1987	253120	619734	40.8
1988	270661	658782	41.1
1989	286837	698382	41.1
1990	298439	715152	41.7
1991	298447	707858	42.2
Average (1976-1991)			39.0

Note: Prior to 1980, data are at constant 1972 prices
(No rebasing done yet for 1970-79 data).

B) At Current Prices

Year	Services Sector	GDP	Share of Services to GDP (in %)
1976	51562	135272	38.1
1977	59144	154226	38.3
1978	69028	177669	38.9
1979	85066	217543	39.1
1980	87985	243749	36.1
1981	101195	281595	35.9
1982	119968	317177	37.8
1983	141731	369077	38.4
1984	195838	524481	37.3
1985	230781	571704	40.4
1986	252552	609254	41.5
1987	283743	685874	41.4
1988	334056	803016	41.6
1989	387485	925161	41.9
1990	461450	1074280	43.0
1991	550592	1238686	44.4
Average (1976-1990)			39.6

Source of basic data: National Statistical and Coordinating Board, NEDA.

Table 6.2

**INDUSTRIAL COMPOSITION OF
GROSS DOMESTIC PRODUCT
(At Constant 1985 Prices)**

(Million Pesos)

Year	Agri. Sector	Indust'l Sector	Services Sector	GDP	Share to GDP (in %)			
					Agri. Sector	Indust'l Sector	Services Sector	Total
1976	19789	25743	28390	73922	26.8	34.8	38.4	100.0
1977	20770	27907	29790	78467	26.5	35.8	38.0	100.0
1978	26131	29611	31542	82784	26.1	35.8	38.1	100.0
1979	22606	31975	33381	87962	25.7	36.4	37.9	100.0
1980	143295	249840	220014	613149	23.4	40.7	35.9	100.0
1981	148479	260497	223618	632594	23.5	41.2	35.3	100.0
1982	149641	266882	238869	655392	22.8	40.7	36.4	100.0
1983	144586	271363	252144	668093	21.8	40.8	37.7	100.0
1984	143247	238405	235677	617329	23.2	38.8	38.2	100.0
1985	140554	200369	230781	571704	24.8	35.0	40.4	100.0
1986	145725	204930	240534	591189	24.8	34.7	40.7	100.0
1987	150414	216200	253120	619734	24.3	34.9	40.8	100.0
1988	155292	232829	270661	658782	23.8	35.3	41.1	100.0
1989	159964	251581	286837	698382	22.9	36.0	41.1	100.0
1990	160557	256136	298439	715152	22.5	35.8	41.7	100.0
1991	161710	247701	298447	707858	22.8	35.0	42.2	100.0
Average (1976-1991)					24.1	36.9	39.0	100.0

Source of basic data: National Statistical and Coordinating Board, NEDA.

Note: Prior to 1980, data are at constant 1972 prices (No rebasing yet from 1972-79).

Table 6.3**SHARE OF SERVICES EXPORTS TO TOTAL EXPORTS
OF GOODS AND SERVICES**

(Million US Dollars)

Year	Services Exports	Goods & Services Exports	Share of Service Exports to Total Exports of Goods/Services (in %)
1976	871	3445	25.30
1977	1085	4236	25.60
1978	1484	4909	30.20
1979	1655	6256	26.50
1980	2222	8010	27.70
1981	2896	8818	33.60
1982	2983	8004	37.30
1983	3127	8132	38.50
1984	2626	8017	32.80
1985	3288	7917	41.50
1986	3791	8833	43.90
1987	3454	9174	37.60
1988	3592	10888	33.70
1989	4586	12407	37.00
1990	4842	13028	37.20
1991	5624	14483	38.90
Average (1976-1991)			34.20

Source of basic data: Department of Economic Research
International, Central Bank of the
Philippines.

Table 6.4**SHARE OF SERVICES IMPORTS TO TOTAL IMPORTS
OF GOODS AND SERVICES**

(Million US Dollars)

Year	Services Imports	Goods & Services Imports	Share of Service Imports to Total Imports of Goods/Services (in %)
1976	1130	4764	23.70
1977	1333	5248	25.40
1978	1591	6323	25.20
1979	1966	8108	24.20
1980	2621	10348	25.30
1981	3205	11151	28.70
1982	4023	11690	34.40
1983	3867	11354	34.10
1984	3449	9519	36.20
1985	3288	8399	39.10
1986	3076	8120	37.90
1987	3454	10191	33.90
1988	3672	11831	31.00
1989	4274	14693	29.10
1990	4231	16437	25.70
1991	4273	18325	26.20
Average (1976-1991)			30.00

Source of basic data: Department of Economic Research
International, Central Bank of the
Philippines.

Table 6.5
RATIO OF SERVICES EXPORTS TO MERCHANDISE EXPORTS
(Million US Dollars)

Year	Services Exports	Merch. Exports	Ratio of Service Exports to Merch. Exports (in %)
1976	871	2574	33.80
1977	1085	3151	34.40
1978	1484	3425	43.30
1979	1655	4601	36.00
1980	2222	5788	38.40
1981	2896	5722	50.60
1982	2983	5021	59.40
1983	3127	5005	62.50
1984	2626	5391	48.70
1985	3288	4629	71.00
1986	3791	4842	78.30
1987	3454	5720	60.40
1988	3592	7074	50.80
1989	4586	7821	58.60
1990	4842	8186	59.10
1991	5624	8839	63.60
Average (1976-1991)			53.10

Table 6.6
RATIO OF SERVICES IMPORTS TO MERCHANDISE IMPORTS
(Million US Dollars)

Year	Services Imports	Merch. Imports	Ratio of Service Imports to Merch. Imports (in %)
1976	1130	3634	31.10
1977	1333	3915	34.00
1978	1591	4732	33.60
1979	1966	6142	32.00
1980	2621	7727	33.90
1981	3205	7946	40.30
1982	4023	7667	52.50
1983	3867	7487	51.60
1984	3449	6070	56.80
1985	3288	5111	64.30
1986	3076	5044	61.00
1987	3454	6737	51.30
1988	3672	8159	45.00
1989	4274	10419	41.00
1990	4231	12206	34.70
1991	4273	12052	35.50
Average (1976-1991)			43.70

Source of basic data: Department of Economic Research
International, Central Bank of the
Philippines.

Table 6.7**BALANCE OF TRADE IN SERVICES**

(Million US Dollars)

Year	Services Exports	Services Imports	Balance of in Services
1976	871	1130	-259
1977	1085	1333	-248
1978	1484	1591	-107
1979	1655	1966	-311
1980	2222	2621	-399
1981	2896	3205	-309
1982	2983	4023	-1040
1983	3127	3867	-740
1984	2626	3449	-823
1985	3288	3288	0
1986	3791	3076	715
1987	3454	3454	0
1988	3592	3672	-80
1989	4586	4274	312
1990	4842	4231	611
1991	5624	4273	1351

Source of basic data: Department of Economic Research
International, Central Bank of the
Philippines.

Table 6.8**BALANCE OF TRADE IN GOODS AND SERVICES**

(Million US Dollars)

Year	Goods & Services Exports	Goods & Services Imports	Balance of Trade in Goods & Services
1976	3445	4764	-1319
1977	4236	5248	-1012
1978	4909	6323	-1414
1979	6256	8108	-1852
1980	8010	10348	-2336
1981	8618	11151	-2533
1982	8004	11690	-3686
1983	8132	11354	-3222
1984	8017	9519	-1502
1985	7917	8399	-482
1986	8633	8120	513
1987	9174	10191	-1017
1988	10666	11831	-1165
1989	12407	14693	-2286
1990	13028	16437	-3409
1991	14463	16325	-1862

Source of basic data: Department of Economic Research
International, Central Bank of the
Philippines.

Table 6.9**SELECTED BALANCE OF PAYMENTS ACCOUNTS**

(Million US Dollars)

Year	Services Exports	Services Imports	Trade in Services Balance	Current Account Balance	Non- Monetary Capital Account Balance	Balance of Payments
1976	871	1130	-259	-1050	889	-158
1977	1085	1333	-248	-752	916	137
1978	1484	1591	-107	-1102	1016	-91
1979	1655	1966	-311	-1497	858	-578
1980	2222	2621	-399	-1904	1366	-353
1981	2896	3205	-309	-2061	1074	-547
1982	2983	4023	-1040	-3200	1302	-1671
1983	3127	3867	-740	-2750	499	-2118
1984	2626	3449	-823	-1116	1205	243
1985	3288	3288	0	-103	1711	2301
1986	3791	3076	715	954	81	1242
1987	3454	3454	0	-444	421	264
1988	3592	3672	-80	-390	643	650
1989	4586	4274	312	-1456	1518	451
1990	4842	4231	611	-2695	1492	-185
1991	5624	4273	1351	-1035	1796	1405

Source of basic data: Department of Economic Research International,
Central Bank of the Philippines.

gap in the merchandise trade account. Meanwhile, the non-monetary capital account consistently reflected a net inflow during the entire review period. Table 6.9 also shows that, during most of the latter part of the seventies and the early part of the eighties, the country's balance of payments was negative. However, starting 1984, external transactions generally reflected a positive balance. This reflected mainly the strengthening of the non-monetary capital account, particularly the medium- and long-term loan and foreign investments accounts.

Table 6.2 shows that the industrial composition of the country's GDP has been gradually veering toward the services sector (from 38.4 per cent in 1976 to 42.2 per cent in 1991). In contrast, the agricultural sector's contribution to GDP has dropped (from 26.8 per cent to 22.8 per cent). Meanwhile, the share of the manufacturing (or industrial) sector remained almost unchanged (from 34.8 per cent in 1976 to 35.0 per cent in 1991). However, the rising share of the services sector can be explained, in part, to the increasing number of activities in the informal service sector.

In the Philippine labor force statistics for the period 1976-1980, employment in the service sector was classified into four (4) categories, namely:

- (a) commerce;
- (b) transportation, storage and communications;
- (c) business and recreational services; and,
- (d) services other than domestic.

Starting 1981, however, the service sector was re-classified into the following four (4) categories:

- (a) wholesale and retail trade (which can be considered as falling under commerce in the earlier time period);
- (b) transportation, storage and communications (which is exactly the same as the classification in the earlier time period);
- (c) insurance, real estate and business services; and,
- (d) social and personal services. The latter two categories have overlaps with the latter two categories of the earlier time period.

Taking into consideration these changes in the statistics, the importance of the service sector to the economy can also be attributed to its role in employment generation as shown in Appendix 6.1. From the January 1990 labor force survey, it can be gathered that the sector employs nearly nine (8.6) million persons, or 39.5 per cent of total number of employed persons. In 1976, the figure was around 4.4 million, or 30.7 per cent of total employed persons.

Appendix 6.1 which presents the number of employed persons by major industry group shows that the developments in the employment picture runs broadly parallel to the developments in the industrial composition of the GDP. In 1976, the services sector accounted for only 30.7 per cent of the total employed. This rose to 39.5 per cent in 1990. Meanwhile, the agricultural sector experienced some diminution in its share to total employment (from 53.8 per cent in 1976 to 44.5 per cent in 1990) while that of the industrial sector has remained relatively steady.

1.3 The Trends of Various Components of Services Accounts

Appendix 6.2 shows in detail the trends in the various services accounts found in the balance of payments. The following matrix presents in summary form the general trends in the net flow of these services:

Item	Net flow
a) freight and merchandise insurance	deficit
b) travel	surplus
c) investment income/earnings	deficit
d) government income and expenditures	surplus
e) non-merchandise insurance	deficit
f) personal income	surplus
g) other transportation	deficit
h) commissions and fees	generally in surplus
i) other services	generally in surplus

Personal income constitutes the largest service exports, while disbursements for investment (primarily in the form of interest payments) constitute the largest service imports.

1.4 The Determinants of Comparative Advantage in the Trade in Services

From Appendix 6.2, it can be seen that the Philippines registered substantial gross inflows in the following services accounts: travel, investment income, personal income, government earnings, and other services.

Time-series regression was used to identify the determinants of comparative advantage in the first three categories only. Regression analysis was not attempted on Government Earnings since this variable is highly influenced by policy decisions on the part of the governments of the United States and other countries. Regression analysis was likewise not done on other services since it is essentially a catch-all account for services transactions not elsewhere classified.

The results of the regression analyses are presented in the following summary form:

Dependent variable: Travel (1976-1991)

Variable	Coefficient	t-statistic
C	161.04	2.91
ER	14.36	4.15 a/
DUM1	193.30	1.92 b/

R-squared 0.6608

Adj. R-squared 0.6086

a/significant at 0.5 per cent, one-tailed test

b/significant at 5 per cent, one-tailed test

Notes: ER - exchange rate (in pesos per U.S. dollar)

 DUM1 - dummy variables where:

 1986 - 1 (assumption of the new

 administration of Pres. C. Aquino)

 otherwise - 0

Dependent variable: Investment Income (1976-1991)

Variable	Coefficient	t-statistic
C	77.63	0.86
LIBOR	18.29	2.35 a/
GIR	0.03	1.08 b/

R-squared 0.4118

Adj. R-squared 0.3698

a/significant at 2.5 per cent, one-tailed test

b/significant at 20 per cent, one-tailed test

Notes: LIBOR - 3-month LIBOR rate (in per cent)

GIR - Gross international reserves
(in million US dollars)

Dependent variable: Personal Income (1976-1991)

Variable	Coefficient	t-statistic
C	-2208.30	-5.90
INDPR	27.04	7.77 a/
OILPRI	12.91	2.33 b/

R-squared 0.8272

Adj. R-squared 0.8006

a/significant at 0.5 per cent, one-tailed test

b/significant at 2.5 per cent, one-tailed test

Notes: INDPR - industrial production in industrial
countries (index: 1985=100)

OILPRI - foreign price of petroleum crude
(in dollars per barrel)

Meanwhile, the largest service expense category was investment expense. The results of regression analysis are as follows:

Dependent variable: Investment Expense (1976-1991)

Variable	Coefficient	t-statistic
C	-420.95	-3.41
FXL	0.10	18.95 a/
R-squared	0.9625	
Adj. R-squared	0.9598	

a/significant at 0.5 per cent, one-tailed test

Notes: FXL - foreign exchange liabilities (in million
LIBOR was also used as an explanatory variable
but the t-statistic was not significant.
The substantial share of foreign loans carrying
fixed interest rates can explain in
part the insignificant effect of LIBOR (which is
a floating rate) on investment expense.

II. Identification of Current Problems and Issues on Trade in Services

2.1 Basic Causes Leading to the Deficits/Surpluses

Deficits in the following services account were realized during the review period:

- (a) freight and merchandise insurance;
- (b) investment income/expense;
- (c) non-merchandise insurance; and,
- (d) other transportation.

The reasons for the deficits are as follows:

- (1) due to financial resources constraints, a less-than-desired share of the country's resources can be devoted to providing basic infrastructural services in transportation so that residents depend to a significant extent on imported services; this explains the deficits incurred in the case of (a) freight paid by residents to foreign companies, and (b) payments by residents to foreign carriers for transport of persons, payments by

residents to foreigner for the time charter of foreign owned carriers, disbursements abroad by domestic carriers visiting foreign countries, and other payments to foreign carriers from residents;

- (2) the country's large external debt stock means that interest payments on outstanding foreign loans of the public and private sectors are considerable (note that interest payments constituted an average of 85 per cent of investment expense during the review period); and,
- (3) the less developed character of the country's financial system relative to those of major financial centers explains, in part, the larger payments made by residents to foreign insurance companies (in the case of non-merchandise insurance) as well as the larger payments made by resident insurance companies to non-resident beneficiaries basically in the form of reinsurance.

Surpluses in the following accounts were realized during the review period:

- (a) travel;
- (b) government earnings/expenditures;
- (c) personal income; and,
- (d) other services.

The major reasons for the surpluses are as follows:

- (1) tourism plays a dominant role in the economy in view of the many scenic attractions and historically-important sites in the country; the strong tourism attraction of the country is also due, in part, to the aggrupation economies that the Philippines enjoys due to its strategic geographical location which makes the country accessible from a large number of other important tourist destination spots in Asia;
- (2) the government earnings/expenditures account is in surplus largely because of the financial assistance that the Philippines has received from the United States in support of the latter's military bases in the Philippines; and,

- (3) the personal income account is in surplus because of the government policy to promote the overseas employment of Filipinos as a temporary solution to the country's unemployment and underemployment problems.

2.2 Market Access

In general, countries impose restrictions on market access due to national security reasons and the infant industry argument. In the case of the Philippines, the main considerations of Philippine regulations in restricting market access (commercial presence) are contained in the Foreign Investments Act (Republic Act No. 7042 dated June 13, 1991).

Under the new law, any foreign national partnership, or corporation with more than forty (40) per cent foreign equity can engage in any activity in the Philippines which is not included in the Negative List. The corporation/partnership or single proprietorship can now register directly with the Securities and Exchange Commission (SEC) or with the Bureau of Trade Regulation and Consumer Protection, respectively, without securing prior authority to do business from the Board of Investments (previously, prior authority from the BOI was required before any foreign-owned enterprise can undertake investments or engage in any economic activity in the Philippines).

As a general rule, R.A. No. 7042 provides no restrictions on the extent of foreign ownership of export enterprises. An export enterprise refers to a firm wherein a manufacturer, processor or service (including tourism) enterprise exports 60 per cent or more of its output or wherein a trader purchases products domestically and exports (60) per cent or more of such purchases. (Under the previous regulation, the minimum export requirement was (70) per cent of total production). In domestic market enterprises, foreigners can invest as much as 100 per cent equity except in areas included in the negative list.

The Foreign Investment Act simplifies the registration process and clearly defines the areas where the entry of foreign investments are still restricted. It replaces the present method of restricting the entry of foreign investments through the establishment of a Negative List to be formulated by the National Economic and Development Authority (NEDA). (The NEDA had already formulated the draft implementing

rules and regulations for the Negative List but these are still subject to revision based on the results of public consultations which are ongoing). During the first three years from the effectivity of the implementing rules and regulations of this Act, a Transitory Negative List shall be composed of the following:

- (1) List A covers all areas of investment in which foreign ownership is limited by mandate of the Constitution and specific laws.
- (2) List B enumerates four areas, namely: (a) security-related activities; (b) manufacture and distribution of dangerous drugs, gambling, entertainment activities and other like activities regulated by law because of risks they may pose to public health and morals; (c) small- and medium-sized domestic market enterprise with paid-in equity capital of less than the equivalent of US\$500,000; and (d) export enterprises which utilize raw materials from depleting natural resources, and with paid-in capital of less than the equivalent of US\$500,000.
- (3) List C enumerates three areas as follows: (a) import and wholesale activities not integrated with production or manufacture of goods; (b) services requiring a license or specific authorization which are restricted to Philippine nationals; and (c) enterprises owned in the majority by a foreign licensor and/or its affiliates for the assembly, processing or manufacture of goods for the domestic market which are being produced by a Philippine national under a technology license from such licensor.

After the end of the transitory period, a Regular negative List shall be formulated by NEDA under the following criteria:

- (1) List A enumerates the areas of activities reserved to Philippine nationals by mandate of the Constitution and specific laws;
- (2) List B contains the areas of activities and enterprises regulated pursuant to law:
 - (a) which are defense-related activities; and,

- (b) which have implications on public health and morals, such as the manufacture and distribution of dangerous drugs, all forms of gambling, nightclubs, bars, beer houses, dance halls, sauna and steam bathhouses and massage clinics.

Small- and medium-sized domestic market enterprises, with paid-in equity capital less than the equivalent of \$500,000, are reserved for Philippine nationals, unless they involve advance technology as determined by the Department of Science and Technology (DOST). Export enterprises which utilize raw materials from depleting natural resources, with paid-in equity capital of less than the equivalent of \$500,000, are likewise reserved for Philippine nationals.

- (3) List C contains the areas of investment in which existing enterprises already serve adequately the needs of the economy and the consumer and do not require further foreign investments.

2.3 Enhancement of Services Industries' Competitiveness

On one hand, foreign investments can be viewed as a desirable form of international capital movement, particularly if the investment is accompanied by technical assistance and training possibilities for the host country and if the foreign company can offer services at better quality and at competitive prices. Occasionally, the investor, particularly in the case of large multinationals, may provide its own social and economic overhead capital. The host country moreover can levy taxes on the profits of foreign enterprises, the proceeds of which can be used to finance developed investment. The host country can also benefit from the foreign investor's international information networks and easier access to foreign markets.

On the other hand, there exists some controversy over the role of foreign investments in the Philippines, as well as in other developing countries. This arises partly because of questions about the value of training that comes with the foreign investment. It has been argued, for instance, that the gap in technology between the developed countries and the less developed ones are so wide that, in many cases, the foreign investment functions as an enclave, separated from the rest of the domestic economy. There are also questions about whether foreign

investors really bring in fresh capital or whether they bring in only a small amount of equity capital and borrow debt capital locally to increase their leverage, thus competing with residents for scarce domestic capital.

In the case of the Philippines, the Government has adopted important measures to attract foreign investors and to entice those who have already invested to maintain their investments in the country. While recognizing the potential for occasional conflict between the promotion of foreign investments and the growth of indigenous industries, the Government has taken the stance that foreign investments can be made to complement the domestic industrial structure, and that both the host country and the foreign investor can benefit and work out mutually advantageous arrangements. The granting of investment incentives which are comparable with the ones provided to foreign investors by neighboring countries, on one hand, and the establishment of a regulatory framework to govern the operation of foreign investors in the country, on the other hand, are the two forces that are expected to work in tandem toward the promotion of the public welfare.

As succinctly stated in the Medium-Term Development Plan 1987-1992 of the Philippines (page 42): "Foreign investments shall be encouraged particularly in areas where domestic resources are lacking and where their contribution to the economy is maximized in terms of generating employment and promoting export-oriented activities. At the same time, Filipino sovereignty and the interest of domestic investors will be adequately promoted". It was noted that statistical difficulties arise in describing the developments in the service sector due to the diversity of the characteristics of the sector, and the imprecision of certain service concepts (particularly in terms of classification across industries and classification in the BOP accounts across countries).

The difficulty of subjecting services to the measuring rod of money can explain in part the problems that are encountered in valuing transactions in services. Moreover, the expanding role of the informal service sector in the Philippine economy, as well as in other countries, implies that the data which are captured in the statistics are, to a significant extent, understated.

2.4 Statistics on Trade in Services

Philippine data on services come mainly from the National Income Accounts (NIA) and the invisible or non-merchandise trade account of the balance of payments.

Services is sometimes generally defined as all economic activities other than agricultural and industrial production. The difficulty of defining the term services is thus due to some extent to the wide range of activities in the sector. Being essentially a catch-all category, its coverage would necessarily be affected by changes in the definition in the two other industrial sectors.

Difficulties also arise in describing the developments in the service sector in view of the diversity of the characteristics of the sector. For instance, the Philippine service sector encompasses activities with extremely low productivity such as those offered by the informal sector as well as activities with very high productivity such as those available in the professional and technical fields.

There are also problems regarding the interpretation/definition of certain accounts by different countries. For instance, Philippine authorities treat the Economic Support Fund (ESF) from the United States as base rentals and, therefore, includes this under foreign government expenditures in the country in the services account. On the part of the United States, however, such transaction is treated as an aid/grant and is, therefore, recorded under transfers in the BOP.

Regarding details on the sectoral and directional classification of traded services, the Department of Tourism (DOT) maintains data on the number of tourist arrivals by nationality while the Department of Labor and Employment (DOLE) maintains data on the number of deployed workers by destination country. The Central Bank maintains data on the amount of overseas workers' remittances by host country. Other than these set of information, there is no disaggregation of services data mainly because the bank reports, which forms the basis of these statistics, do not require such information to be stated.

2.5 Restrictions on Trade in Services

Obstacles or restrictions in the trade in services range from complete protectionism (total exclusion from certain markets or sectors)

to the granting of certain privileges limited to local enterprises. In most developing countries, transnational corporations hold dominant positions in the service sector due to their ownership of technology, their extensive international information networking, and their easier access to foreign markets. As a result, the host developing countries have set up appropriate regulations in order to promote the national interest and to safeguard national security. For instance, in the case of the transportation industry, the advantages of competition (by allowing the entry of foreign corporations) are sometimes outweighed by public welfare considerations.

2.6 Nature and Extent of Liberalization in Trade in Services

There is no longer much dispute that a liberal financial environment is superior to a highly restrictive one. Deregulation is envisioned to considerably improve the mobilization of capital resources which are essential for economic recovery and growth, and also enhance the allocative efficiency of the economy, thus helping attain a more optimal utilization of resources.

There is also the increasing integration of the global economy where the trade and payments systems of individual countries are increasingly becoming interdependent and where national borders--once thought to be inviolate--are increasingly rendered anachronistic. Pragmatic consideration also point to deregulation, as there is growing conviction that foreign exchange restrictions have not worked.

With respect to the domestic financial system, there are moves in the Philippine legislature to liberalize the entry and scope of operations of foreign banks in the country. The passage of this legislation, which the Central Bank supports, is expected to lead to the increased presence of reputable foreign banks, with their large capital base and established track record, that can contribute to a stronger and more efficient banking system. Their entry would also help provide for a financial system configuration that is supportive of the economy's thrust of liberalizing foreign investments and trade. Moreover, as a new millennium nears, a plethora of technological innovations is anticipated; and foreign banks, with their access to updated technology, can help the country prepare for these changes.

In 1991, important liberalization moves were taken in the foreign trade and payments system of the country. Liberalized rules and

regulations governing non-trade foreign exchange transactions took effect last January 20, 1992 (under CB Circular No. 1318). The major changes include relaxed surrender requirement for service exporters, higher ceilings for certain foreign exchange disbursements, expansion of eligible deposits under the foreign currency deposit system, and full and immediate repatriation and remittance privileges for all types of investments, without prior CB approval. The latter measure, in particular, is expected to complement the reforms instituted under the Foreign Investments Act of 1991.

More specifically, the new regulations of major significance are as follows:

(1) in the case of invisible receipts:

- * mandatory surrender of all foreign exchange receipts will be limited to 15 types of resident firms engaged in specified business operations.
- * except for the list of foreign exchange earners who are required to sell foreign exchange to authorized agent banks, any entity may: (a) freely buy and sell foreign exchange; (b) deposit his foreign exchange out of the country for investments or deposit abroad.

(2) in the case of invisible payments:

- * major revisions involve: (a) the increase in the allowable amounts of foreign exchange that may be purchased from banks for invisible payments; (b) a relisting of transactions that require prior CB approval; (c) simplification of requirements; and (d) the opening by residents of foreign currency accounts abroad is legitimized.
- * the import of foreign currency into the country by both residents and non-residents is allowed freely.
- * the allowable limits on the import and export of Philippine currency without prior authorization from the CB is raised to a ceiling of P5,000 from P1,000.

(3) in the case of foreign investments:

- * investments registered with the CB or with a duly-designated custodian bank are entitled to capital repatriation and dividend/interest remittance privileges.
- * full and immediate repatriation and remittance privileges for all types of investments are now allowed to be serviced directly by authorized agent banks in contrast to the previous regulation where remittances are staggered from 3 to 9 years subject to prior CB approval.

(4) in the case of outward investments by Philippine residents:

- * a resident may invest abroad if: (a) the investments are funded by withdrawals from foreign currency deposit accounts; (b) the funds to be invested are not among those required to be sold to authorized agent banks for pesos; and (c) specifically authorized by the CB or by law.
- * prior CB approval shall be required on outward investments funded by foreign exchange purchased from AABs

The policy objective, in fact, is to eventually move toward full deregulation. The Central Bank will continue to review the policy matrix governing foreign trade and payments transactions to align domestic policies with the more liberal exchange regulatory regimes of major competitor countries in the Asian region.

III. Policy Measures Undertaken to Deal with the Problem Arising Out of Trade in Services

3.1 Policy Measures Applied to Attend to the Trade in Services Problems

In discussing the problems that have been encountered in the trade in services, the key query appears to relate to the identification of the measures that the Government has taken to reduce or abolish the deficits that have been recorded in the trade in services. As have been noted earlier, deficits in the following services account were realized during

the review period: (a) freight and merchandise insurance, (b) investment income/expense, (c) non-merchandise insurance, and (d) other transportation. The largest deficits, however, were realized as a result of the large payments for investment expenses, more particularly, interest payments.

In this regard, the Philippine Government has continuously adopted a negotiated approach to its external debt problem, under a cooperative framework with its various foreign creditors. This non-confrontational debt strategy has significantly improved the country's debt profile. The impact of the debt management strategy can be seen most clearly in the significant decline in the debt service burden (which consist of both interest and principal payments). As a result of the restructurings and the debt reduction initiatives, the annual debt service ratio (debt service in relation to the exports of goods and services) was substantially reduced to an average of 29.5 per cent for 1985-1991. Without the debt restructurings and the various debt reduction schemes, the average annual debt service ratio for the same period would have been 54.5 per cent.

With respect to the deficits that have been incurred in freight and merchandise insurance, non-merchandise insurance, and other transportation, the Philippine Government has been continuously supportive of measures to develop and strengthen its financial system (which includes insurance companies) and has been addressing firmly the shortcomings in its infrastructural development, particularly in transportation and communication.

Moreover, the significant liberalization moves that have been undertaken early in 1992 are expected to boost invisible receipts which are expected to further improve the country's trade in services position.

There has been significant progress in reducing the country's foreign interest payments. This, however, is not readily apparent in the BOP statistics in the sense that the statistics show the debt service payments after the conclusion of the negotiations with foreign creditors (e.g., commercial bank creditors, Paris Club creditors). However, as mentioned above, if one were to compare the amount of debt service payments (which include interest expense) before and after the restructurings and the debt reduction schemes, the statistics would show that there was an appreciable drop in debt service payments.

(In the case of the impact of liberalization moves that have recently been adopted--effective January 20, 1992, their impact on the non-merchandise trade balance cannot be readily discerned from the available statistics since only the January 1992 BOP statistics have been published. However, it is expected that the stimulative effects of these reforms will permeate the economy starting this year).

3.2 The Impact of Uruguay Round Negotiations on Trade in Services and Future Implementation Plans

During the launching of the Uruguay Round of Multilateral Trade Negotiations on September 20, 1986, the General Agreement on Tariffs and Trade (GATT) embarked on negotiations between developed and developing countries.

Initially, there was a very strong resistance from the developing countries in the negotiations to liberalize trade in services in the context of the Uruguay Round. Since then, however, a draft General Agreement on Trade in Services (GATS) has been negotiated. The draft GATS covers a framework agreement and four annexes, the latter specifically defining rules that will be applied to financial services, telecommunications, air transport, and the movement of natural persons providing services.

The Philippines as a GATT Contracting Party did not object to the inclusion of services in the Ministerial Declaration launching the Uruguay Round in support of the position of the ASEAN. The Ministerial Declaration specifically provides that negotiations on services will aim to establish a multilateral framework of principles and rules for trade in services including elaboration of possible disciplines for individual sectors.

An Assessment of the GATS:

The GATS can be assessed, in terms of the possible benefits for developing countries, on the basis of the following points:

- (1) **Export Opportunities.** This will entail an evaluation as to (a) whether the initial commitments that are being offered on the negotiating table are moves toward greater liberalization or just a binding of the status quo; and (b) whether developing countries have the export

capability to take advantage of the offers in order for such offers to have any significance on their economic development.

- (2) **Transfer of Skills and Technology.** Over the longer term, perhaps, the strongest case for services trade liberalization has to do with the transfer of technology (management, technical professional and other skills) associated with the activities of foreign-based providers. As mentioned above, the GATS has provided developing countries the flexibility to attach conditions (such as technology transfer) in opening their services markets. However, such access to technology shall be granted on a commercial basis.
- (3) **Gradual Adjustment.** The GATS mandates the negotiation of commitments under a process of progressive liberalization. This will allow room for gradual absorption of adjustment strains and costs that expansion of trade in services is likely to entail. Moreover, for developing countries, they are given flexibility to liberalize fewer sectors and transactions in line with their development situation.

The SEACEN member countries have been meeting regularly to discuss the various issues concerning the liberalization of trade in financial services. The SEACEN as a body has been formulating the negotiations on requests on offers regarding the financial services sector while negotiations on other services are also underway. There is an ongoing process of exchange of information among the various delegations regarding the market access situation in the services area in the respective countries.

In the SEACEN meetings, the representatives of the SEACEN member countries have agreed that SEACEN countries will continue to maintain a common stand on financial services in the Uruguay Round negotiations. Essentially, their stand is that the SEACEN member countries could live with the proposals on financial services in the Uruguay Round package. They have agreed that, in the spirit of goodwill, SEACEN member countries would support the Uruguay Round package. However, the SEACEN member countries would reserve its right to withdraw its acceptance of the package if other countries suggest modifications to the proposals on financial services (Source: Notes of SEACEN Meeting on the GATT Uruguay Round Negotiations held in Singapore on January 6-7, 1992).

In particular, since the Philippines, just like most developing countries have recorded deficits in the services accounts due mainly to lack of basic infrastructure for services and lack of capital to enable them to compete in the international markets, it is expected that the country would negotiate for the inclusion of the principle of special and differential treatment for developing countries in any multilateral framework for services.

IV. Major Findings and Concluding Remarks

Services play a very important role in the development process as can be gleaned from the various statistics showing their direct contribution to GDP, the balance of payments, and employment generation. The current study--of which this particular country paper is part of--is expected to serve as an appropriate response to the challenge which calls for a more complete understanding of the role of services in the development of the national economy; an improved awareness of the effects of infrastructure, technology and other factors in the rapidly changing world market for services; and a clearer understanding of the policy environment affecting the trade in services.

However, apart from these considerations, the service sector has other equally important, but indirect, effects on the economy and this can be gauged partly by the extent and the breadth of activities in the informal sector, which have largely not been subjected to rigorous research. An area for further research that can be suggested, therefore, is the examination of the developments and trends of the informal service sectors in the SEACEN member countries. Such would considerably expand the body of knowledge regarding the service industry and its impact on the economic development process.

NUMBER OF EMPLOYED PERSONS BY MAJOR INDUSTRY GROUP

(in Thousands)

	Agri., Forestry Fishery	Mining & Quarrying	Mfg.	Elec., Gas, Water	Const.	Commerce Storage & Com.	Transp. Storage & Com.	Business Rec'ral Services	Services Domestic	Not Reported	Total	Share to Total Employed (In %)			
												Agri.	Ind.	Services	Not Reported
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)		(1)	(2,3,4,5)	(6,7,8,9)	(10)
3rd Qtr 1976	7659	81	1598	51	428	1398	600	1388	986	48	14237	53.8	15.2	30.7	0.3
3rd Qtr 1977	7474	52	1515	42	484	1355	681	338	2298	96	14355	52.1	14.6	32.6	0.7
3rd Qtr 1978	8422	61	1742	49	519	1626	699	361	2625	15	16119	52.2	14.7	32.9	0.1
3rd Qtr 1979	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
3rd Qtr 1980	8453	94	1814	58	588	1660	732	336	2693	6	16434	51.4	15.5	33.0	0.0
3rd Qtr 1981	8928	80	1807	66	592	1956	734	324	2960	4	17451	51.2	14.6	34.2	0.0
3rd Qtr 1982	8920	74	1741	53	604	1915	758	383	2922	0	17370	51.4	14.2	34.4	0.0
3rd Qtr 1983	9880	102	1887	78	697	2197	831	356	3184	0	19212	51.4	14.4	34.2	0.0
3rd Qtr 1984	9740	138	1931	81	759	2437	874	368	3304	1	19633	49.6	14.8	35.6	0.0
3rd Qtr 1985	9698	128	1922	73	684	2611	931	342	3408	0	19797	49.0	14.2	36.8	0.0
3rd Qtr 1986	10289	150	1905	62	629	2814	841	390	3516	0	20596	50.0	13.3	36.7	0.0
3rd Qtr 1987	9940	146	2059	81	759	2857	946	386	3621	0	20795	47.8	14.6	37.6	0.0
April 1988	10089	176	2158	80	836	2788	1025	406	3582	1	21141	47.7	15.4	36.9	0.0
July 1988	9891	163	2250	80	865	2930	1029	381	3765	1	21355	46.3	15.7	38.0	0.0
Oct 1988	9920	157	2238	95	858	2972	1049	379	3827	2	21497	46.1	15.6	38.3	0.0
Ave 1988	9967	165	2215	85	853	2897	1034	389	3725	1	21331	46.7	15.6	37.7	0.0
Jan 1989	9650	182	2321	89	949	3010	1055	388	3907	1	21552	44.8	16.4	38.8	0.0
April 1989	10205	180	2309	96	959	3138	1082	399	3965	10	22343	45.7	15.9	38.4	0.0
July 1989	9896	156	2336	96	905	3098	1055	405	3925	16	21888	45.2	16.0	38.8	0.1
Oct 1989	9852	154	2298	83	911	3074	1095	398	3972	13	21850	45.1	15.8	39.1	0.1
Ave 1989	9901	168	2316	91	931	3080	1072	398	3942	10	21908	45.2	16.0	38.8	0.0
Jan 1990	9750	139	2369	84	959	3188	1062	410	3983	16	21900	44.5	15.9	39.5	0.1

COMPONENTS OF TRADE IN SERVICES

(Million US Dollars)

FREIGHT AND MERCHANDISE INSURANCE

Year	Receipts	% Share	Payments	% Share	Trade Balance
1976	32	3.7	320	28.3	-288
1977	94	8.7	356	26.7	-262
1978	82	5.5	411	25.8	-329
1979	91	5.5	471	24.0	-380
1980	100	4.5	568	21.7	-468
1981	106	3.7	533	16.6	-427
1982	101	3.4	596	14.8	-495
1983	100	3.2	495	12.8	-395
1984	135	5.1	358	10.4	-223
1985	167	5.1	340	10.3	-173
1986	120	3.2	351	11.4	-231
1987	111	3.2	451	13.1	-340
1988	136	3.8	572	15.6	-436
1989	157	3.4	752	17.6	-595
1990	170	3.5	836	19.8	-666
1991	166	3.0	805	18.8	-639

TRAVEL

Year	Receipts	% Share	Payments	% Share	Trade Balance
1976	93	10.7	28	2.5	65
1977	145	13.4	35	2.6	110
1978	210	14.2	51	3.2	159
1979	238	14.4	74	3.8	164
1980	320	14.4	106	4.0	214
1981	344	11.9	126	3.9	218
1982	450	15.1	147	3.7	303
1983	465	14.9	221	5.7	244
1984	366	13.9	19	0.6	347
1985	506	15.4	37	1.1	469
1986	647	17.1	56	1.8	591
1987	458	13.3	88	2.5	370
1988	405	11.3	76	2.1	329
1989	469	10.2	77	1.8	392
1990	466	9.6	111	2.6	355
1991	571	10.2	62	1.5	509

APPENDIX 6.2 (CONT'D)**INVESTMENT INCOME**

Year	Receipts	% Share	Payments	% Share	Trade Balance
1976	127	14.6	394	34.9	-267
1977	139	12.8	472	35.4	-333
1978	181	12.2	587	36.9	-406
1979	213	12.9	779	39.6	-566
1980	341	15.3	1173	44.8	-832
1981	524	18.1	1564	48.8	-1040
1982	369	12.4	2192	54.5	-1623
1983	375	12.0	2147	55.5	-1772
1984	325	12.4	2359	68.4	-2034
1985	359	10.9	2394	72.8	-2035
1986	235	6.2	2226	72.4	-1991
1987	300	8.7	2296	66.5	-1996
1988	305	8.5	2354	64.1	-2049
1989	359	7.8	2706	63.3	-2347
1990	395	8.2	2465	58.3	-2070
1991	448	8.0	2460	57.6	-2012

GOVERNMENT EARNINGS/EXPENDITURES

Year	Receipts	% Share	Payments	% Share	Trade Balance
1976	204	23.4	80	7.1	124
1977	190	17.5	62	4.7	128
1978	204	13.7	104	6.5	100
1979	193	11.7	92	4.7	101
1980	233	10.5	121	4.6	112
1981	259	8.9	110	3.4	149
1982	281	9.4	107	2.7	174
1983	292	9.3	135	3.5	157
1984	257	9.8	45	1.3	212
1985	373	11.3	22	0.7	351
1986	730	19.3	21	0.7	709
1987	489	14.2	31	0.9	458
1988	389	10.8	7	0.2	382
1989	543	11.8	28	0.7	515
1990	347	7.2	40	0.9	307
1991	341	6.1	21	0.5	320

NON-MERCHANDISE INSURANCE

Year	Receipts	% Share	Payments	% Share	Trade Balance
1976	2	0.2	20	1.8	-18
1977	3	0.3	22	1.7	-19
1978	5	0.3	21	1.3	-16
1979	14	0.8	21	1.1	-7
1980	11	0.5	24	0.9	-13
1981	5	0.2	23	0.7	-18
1982	4	0.1	25	0.6	-21
1983	4	0.1	30	0.8	-26
1984	2	0.1	22	0.6	-20
1985	2	0.1	26	0.8	-24
1986	2	0.1	13	0.4	-11
1987	3	0.1	24	0.7	-21
1988	8	0.2	28	0.8	-20
1989	11	0.2	28	0.7	-17
1990	7	0.1	23	0.5	-16
1991	14	0.2	24	0.6	-10

PERSONAL INCOME

Year	Receipts	% Share	Payments	% Share	Trade Balance
1976	111	12.7	5	0.4	106
1977	213	19.6	5	0.4	208
1978	291	19.6	4	0.3	287
1979	365	22.1	6	0.3	359
1980	421	18.9	9	0.3	412
1981	546	18.9	9	0.3	537
1982	810	27.2	8	0.2	802
1983	944	30.2	7	0.2	937
1984	659	25.1	1	0.0	658
1985	694	21.1	1	0.0	693
1986	696	18.4	6	0.2	690
1987	809	23.4	3	0.1	806
1988	874	24.3	10	0.3	864
1989	1002	21.8	4	0.1	996
1990	1203	24.8	5	0.1	1196
1991	1521	27.0	9	0.2	1512

OTHER TRANSPORTATION

Year	Receipts	% Share	Payments	% Share	Trade Balance
1976	67	7.7	37	3.3	30
1977	63	5.8	73	5.5	-10
1978	57	3.8	91	5.7	-34
1979	71	4.3	170	8.6	-99
1980	106	4.8	192	7.3	-86
1981	138	4.8	248	7.7	-110
1982	73	2.4	220	5.5	-147
1983	33	1.1	167	4.3	-134
1984	19	0.7	91	2.6	-72
1985	37	1.1	38	1.2	-1
1986	44	1.2	52	1.7	-8
1987	62	1.8	110	3.2	-48
1988	89	2.5	166	4.5	-77
1989	84	1.8	157	3.7	-73
1990	83	1.7	180	4.3	-97
1991	82	1.5	279	6.5	-197

COMMISSIONS AND FEES

Year	Receipts	% Share	Payments	% Share	Trade Balance
1976	33	3.8	32	2.8	1
1977	80	7.4	19	1.4	61
1978	88	5.9	24	1.5	64
1979	100	6.0	43	2.2	57
1980	138	6.2	47	1.6	91
1981	164	5.7	140	4.4	24
1982	141	4.7	169	4.2	-28
1983	98	3.1	134	3.5	-36
1984	66	2.5	99	2.9	-33
1985	64	1.9	45	1.4	19
1986	70	1.8	28	0.9	42
1987	60	1.7	35	1.0	25
1988	91	2.5	42	1.1	49
1989	155	3.4	138	3.2	17
1990	245	5.1	135	3.2	110
1991	223	4.0	157	3.7	66

OTHER SERVICES

Year	Receipts	% Share	Payments	% Share	Trade Balance
1976	202	23.2	214	18.9	-12
1977	158	14.6	289	21.7	-131
1978	366	24.7	298	18.7	68
1979	370	22.4	310	15.8	60
1980	552	24.8	381	14.5	171
1981	810	28.0	452	14.1	358
1982	754	25.3	559	13.9	195
1983	816	26.1	531	13.7	285
1984	797	30.4	455	13.2	342
1985	1086	33.0	385	11.7	701
1986	1247	32.9	323	10.5	924
1987	1162	33.6	416	12.0	746
1988	1295	36.1	417	11.4	878
1989	1806	39.4	384	9.0	1422
1990	1926	39.8	436	10.3	1490
1991	2258	40.1	456	10.7	1802

Source of basic data: Department of Economic Research International,
Central Bank of the Philippines.

Chapter 7

TRADE IN SERVICES IN SINGAPORE

by

Quah Hong Chye

I. Introduction

This country chapter is written for the SEACEN collaborative project on "Trade in Services in SEACEN Countries". It gives an insight into the development of the services trade and its contribution to the Singapore economy. An assessment of factors determining Singapore's comparative advantage is also included. Although quantitative work on cross-country comparative advantage will be carried out by The SEACEN Centre, this chapter incorporates time-domain econometric analysis of the factors driving the services trade in Singapore. In the final section, this chapter identifies the current issues facing the services sector, and discusses the policy measures to maintain its competitiveness.

II. Concepts and Definitions on International Transactions in Services

International effort to understand accurately the state of services in the world economy is hindered by the lack of a precise definition of services that has been widely agreed upon. Blurred demarcation between goods and services and difference in modes of delivering services to markets complicate the task of delineating trade in services.

In general, a service can be defined as a market transaction through which an economic agent operates on goods belonging to other people or on those people themselves. According to the International Monetary Fund, the definition of internationally traded services covers only non-factor services, i.e. freight and insurance, travel and other transportation and services (which incorporates sale of bunkers, port services, shiprepairing, banking, management and consultancy services).

III. Developments in Trade in Services

Singapore's services balance has traditionally been positive, counterbalancing its persistent merchandise trade deficit. (A detailed

breakdown of the balance of payments is found in Appendix 7.1. Surpluses in travel and other transportation and services have offsetted the deficit in freight and insurance. (see Chart 7.1)

The services surplus peaked in 1981-82, at the confluence of a cyclical peak in shiprepairing (see Chart 7.2) and high oil price. The latter boosted bunkering and oil processing receipts as well as demand for marine and other transportation services in support of oil-exploration activities.

Subsequently, however, the surplus shrank between 1982-87, following the decline in oil prices and the slump in ship-repairing business. Increased indigenous oil processing capacity in the region also led to a drop in demand for third party oil-refining. Growth in tourist arrivals was dampened by the slowdown in many Asia-Pacific economies, which relied heavily on oil and other primary commodities as export revenue.

In the last four years, the service surplus has begun to recover. The tourist industry in Singapore has benefitted from the structural increase in overseas travel by Japanese, as part of the effort to reduce Japan's current account surplus. Passenger fare receipts were buoyed by the unprecedented boom in air travel, particularly in the region, and fleet expansion by the national carrier.

At the same time, the aging global shipping fleet has led to increased repairing needs. Offshore financial services have gained from the rapid industrialization of the region, the shift in global foreign exchange trading towards the Asian time zone, and the liberalisation of Tokyo's financial market (see Chart 7.3).

The importance of receipts from financial services has been understated with the exclusion of investment income, since bulk of the earnings of international banks are in the form of interest charge. Commission and brokerage from foreign exchange and securities trading, and underwriting fees arising from managing new issues of bonds and equities, are however covered under "other transportation and services".

On the payments side, travel payments in particular have increased faster than income growth in Singapore. Besides the increasing

Chart 7.1

COMPOSITION OF SERVICES BALANCE

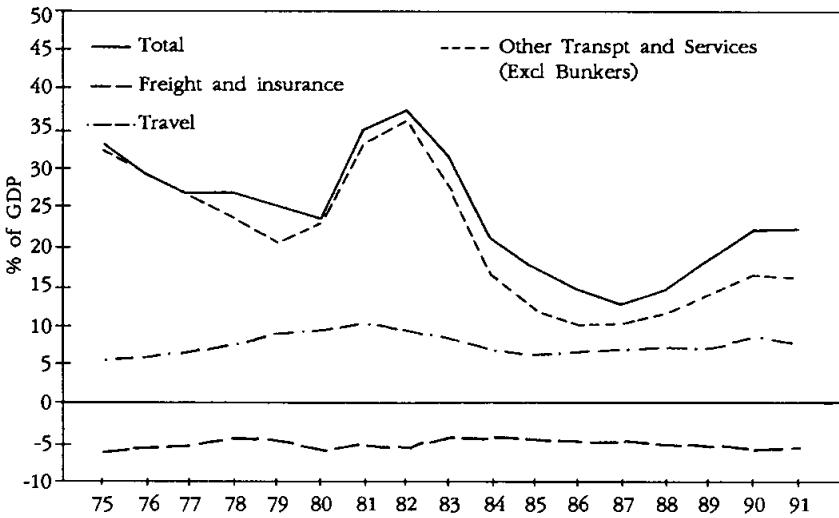
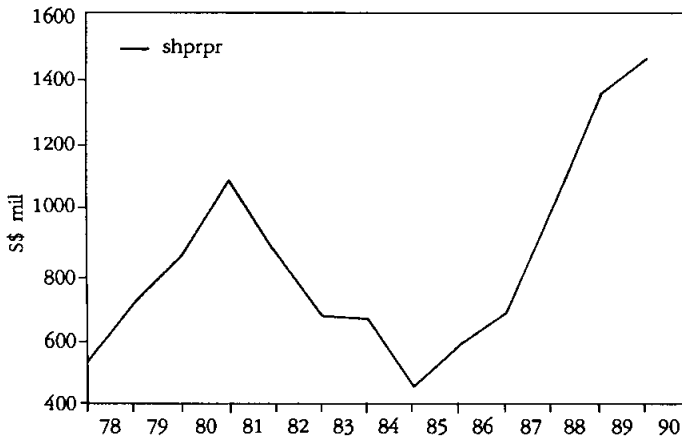


Chart 7.2

SHIPREPAIRING REVENUE OF SINGAPORE'S MARINE INDUSTRY



tendency for Singaporeans to take their holidays abroad, the emergence of Singapore as a regional headquarter for international firms has necessitated more frequent business trips by residents.

IV. Direction of Flows in Services Trade

Comprehensive data on the direction of flows in services trade are not available. However, broad estimates can be made for selected service items from related indicators. For example, data on tourist arrivals by markets and returning Singaporeans by regions provide indications of the geographical distribution of travel trade (see Appendix 7.4). Difficulties exist in estimating the markets for port services because ships entering the port are classified by their flag-of-convenience rather than residency of the owner. As Singapore is a major air-transit centre, it is also inaccurate to estimate the market for passenger transportation through immigration records.

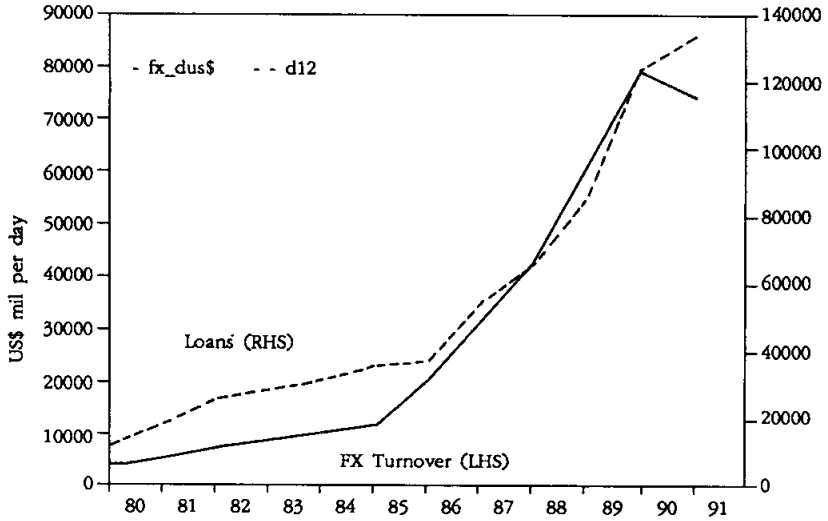
On travel receipts, a discernible trend has been the increasing share of tourists arrivals from Japan and the NIEs, from a total of 18 per cent in 1980 to 28 per cent by 1991. Since the mid-1980s, Japanese market for international banking services has also grown in line with the liberalization of the Tokyo financial system.

While the overall share of the Asean market for services may have remained stable, it has undergone substantial compositional changes. This market has declined in importance as a source of tourists, although Asean itself has become a more popular destination for Singaporeans (see Appendix 7.4). With the industrialization in the region, Singapore's ports have been increasingly used as a regional transshipment centre for manufactured goods, replacing the traditional primary commodities.

Services exports are less oriented towards the Western industrialised countries compared to merchandise exports. This is borne out by a recent survey conducted for the Singapore Economic Planning Committee which indicated that the US and EEC accounted for only 11 per cent of the exports value-added in the services sector in 1989, significantly lower than their share of 54 per cent in the manufacturing sector.

Chart 7.3

OFFSHORE LOANS AND FOREIGN EXCHANGE TURNOVER



V. Services' Contribution to the Economy

Singapore has the highest dependence on services among the SEACEN economies. The services sector's share of GDP at nearly 70 per cent, is higher than OECD's average of 64 per cent despite our significantly lower per capital income. This suggests that much of the services output are directly or indirectly exported.

There has been efficient incorporation of services into exported products. These include R&D, marketing, international procurement and banking services in support of manufacturing operations in Singapore. An efficient services sector also reduces the cost of manufactured goods.

In the National Accounts, the services sector incorporates:

- general commerce, including entrepot trade
- transport and communications
- financial and business services
- other services, e.g. medical, educational, cultural and entertainment services.

The services sector's share of Singapore's GDP has increased by 5-6 percentage points over the last 11/2 decade to 69 per cent in 1991 (Table 7.1). There has been a move from low value-added labor-intensive activities towards higher value-added skill and capital-intensive activities. Productivity growth in the services sector averaged 4.6 per cent in 1976-91, higher than the overall economy's 4.1 per cent.

The share of the financial, business, transport and communications services has increased from 29 per cent in the mid 70s to 42 per cent in 1991. There has been a concomitant decline in lower-margin activities in the commerce sector, especially entrepot trade in primary commodities.

VI. Determinants of Singapore's Comparative Advantage on Trade in Services

Singapore's comparative advantage in services trade are centred primarily on:

Table 7.1**SERVICES SECTOR CONTRIBUTION TO THE ECONOMY**

(Per Cent of Total VA/Employment in Economy)

Period	Total Services 1/		Commerce		Transport & Communication		Financial & Business		Manufacturing	
	VA	Employment	VA	Employment	VA	Employment	VA	Employment	VA	Employment
1975	63.8	65.3	20.9	23.0	9.1	11.7	20.2	6.1	26.0	26.2
1980	63.0	60.7	18.9	21.3	12.0	11.1	20.5	7.4	29.5	30.1
1985	69.6	63.8	17.0	23.5	13.4	10.1	27.4	8.7	23.6	25.5
1991	69.3	64.5	17.5	22.7	14.3	10.0	27.4	10.7	28.6	28.2

1/ Comprises commerce, transport and communication, financial and business and other services sector.

- (i) a strategic location;
- (ii) a well-developed communications and transportation infrastructure;
- (iii) a relatively well-educated and numerate workforce;
- (iv) a long tradition in commerce;
- (v) expertise built up over time in various sophisticated services, such as financial services, air and sea port management and engineering consultancy; and,
- (vi) a stable political and macroeconomic environment.

The lack of natural endowment has also been a factor compelling Singapore to orient its economy towards services as well.

A strategic location and a natural deep harbour have allowed port services to flourish in Singapore. The use of Singapore as a distribution centre is further facilitated by an efficient port and telecommunication infrastructure. The growth of the tourist industry is also premised on a central location with a free port status that attracts shoppers. Singapore's oriental charm and mystique, and diversity of cultures are added attractions. A thriving tourist industry in turn provides leverage to passenger fare receipts.

However, Singapore suffers from a persistent deficit in freight and insurance in line with a persistent trade deficit, which reflects our lack of natural resources and heavy dependence on imports. The deficit also reflects the lagging development of the local merchant shipping fleet in comparison to Singapore's international trade (see Chart 7.4).

Skilled labor is a significant determinant of competitive advantage in financial services, while endowments of arable land appears to carry a negative correlation¹. The growth of the financial services sector in Singapore, in particular the offshore services, is also attributable to a sound regulatory environment, fiscal incentives and rapid industrialization of the region.

There is also the "technology gap" factor that drives comparative advantage in most services trade. It traces international competitiveness to long-term leads and lags among countries in the development of new services or processes. For example, Singapore's early start to

1. Switzerland, Hong Kong and Tokyo are amongst the major financial centres which face a scarcity of land.

international banking, with the establishment of the Asian Dollar Market (ADM) in 1968 and the liberalization of financial capital flows, has been instrumental in the success of its financial services sector.

VII. Quantitative Analysis of Services Trade

Time series regression can provide some insights into factors determining the performance of various services trade in each country.

Singapore's freight and insurance receipts comprised cargo revenues of local shipping lines and airline earned from non-residents. It is postulated that the revenues are related to Singapore's total trade volume (tt85), movements in freight rates (frate 65)² and capital stock of transport equipment³ (nkfi85_teq) representing supply potential. (Full description of all abbreviated data series is found in Appendix 7.5).

$$\log(\text{bxsfi}/\text{pcpi}78) = 0.6 \cdot \log(\text{tt}85) + 0.7 \cdot \log(\text{frate}65) + 0.2 \cdot \log(\text{nkfi}85\_teq) - 9.7$$

(7.1) (4.5) (1.5)

$$R^2 = 0.98$$

$$DW = 1.48$$

[Annual data from 1978 to 1991]

The estimated equation gives an elasticity of below unity (0.6) on total trade probably because increases in local shipping fleet capacity had lagged behind the rapid growth in Singapore's total external trade. The lower than expected strength of significance (t-statistic of 1.5) and elasticity on supply variable is due to distortions caused by the inclusion of passenger carrying capacity in this variable.

Since Singapore imports her merchandise on a c.i.f. basis, gross payments of freight and insurance (bmsfi) is simply a function of total volume of imports (tm85) and freight rates.

$$\log(\text{bmsfi}/\text{pcpi}78) = 0.9 \cdot \log(\text{tm}85) + 0.6 \cdot \log(\text{frate}65) - 9.3$$

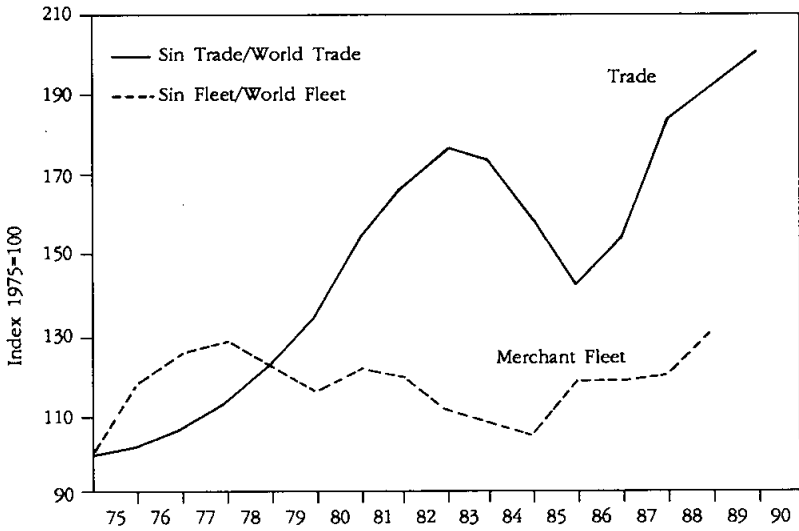
(16.2) (3.8)

2. Index of sea cargo trip charters fares. Air freight rates are unfortunately not readily available.

3. This is author's own estimation.

Chart 7.4

SHARE OF WORLD'S MERCHANT FLEET AND TRADE



$$R^2 = 0.98$$

DW = 1.74

[Annual data from 1978 to 1991]

Travel receipts (bxstv) depended on two main factors, the income in the tourist market⁴ (ngdp85_fortoure_) and Singapore's cost competitiveness⁵ (reer85_tourn). The result indicated that travel trade is very price elastic at -4.3. Singapore's price elasticity could be higher than most countries, given the heavier dependence on the price-sensitive shopping revenue. The relative price variable has a 4 year lag structure, with insignificant effects on the first year, i.e. a long pass through process.

$$\log(\text{bxstv}/\text{pcpi78}) = 1.2 \cdot \log(\text{ngdp85\_fortoure}) - 4.3 \cdot \log(\text{reer85\_tourn}) + 18.4$$

(9.6)
(4.8)

$$R^2 = 0.96$$

$$DW = 1.33$$

[Annual data from 1976 to 1991]

In investigating factors explaining per capita travel payments (bmstv/popn), it was found that per capita national income (ngnp/popn) carries a coefficient of greater than unity. The strong Singapore dollar (implicit in S\$ real effective exchange rate against the country destinations of Singapore travellers, reer85_tourout) has encouraged overseas travel as well. The autocorrelation in the residual (as indicated by a poor Durbin-Watson) is probably due to unquantified factors such as evolution in the conduct of business in Singapore towards necessitating more frequent travelling by workers.

$$\log(\text{bmstv/popn}) = 1.3 \cdot \log(\text{ngnp/popn}) + 1.0 \cdot \log(\text{reer85\_tourout}) - 8.4$$

(21.7)
(2.3)

$$R^2 = 0.97$$

DW = 0.9

[Annual data from 1976 to 1991]

4. Weights are estimated from sources of tourist arrivals, adjusted for differences in per capita expenditures.

5. This is the relative consumer price index of Singapore versus competitors in the tourist trade adjusted for exchange rates. Again the weights are purely internal MAS estimates.

VIII. Current Issues on Trade in Services

The advances in information technology, as embodied in the service sector, will have an impact on all countries, and will require adaptation. Technological developments have changed the conduct of business activities drastically in some traditional sectors such as transportation and distribution. Access to networks has become a matter of survival for many firms in the services sector.

As the importance of raw materials, energy and to a lesser extent location, as determinants of comparative advantage declines, information and knowledge are becoming the key production factors of modern economies. These factors are mobile, and they are not a part of the natural endowment. Comparative advantages are therefore the result of human decisions and can change dramatically over a few years.

In Singapore, there has been some concern over the low productivity in the commerce sector. A disproportionate share of the workforce is concentrated in domestic services such as retail business in the housing estates. While changing lifestyles and shopping habits have permanently altered the economic environment, many of these retailers have yet to restructure their operations. For a resource-scarce economy like Singapore, such poor allocation of resources warrants attention.

There are barriers to services trade but regulation, rather than taxation, appears to be prevalent compared to goods trades. Singapore has encountered protectionistic measures in various areas such as aviation and financial services. It has been argued that trade in services and trade in goods are not nearly as distinct as is usually assumed. Instead, a great deal of trade in goods involves the simultaneous international delivery of postproduction services; marketing and distribution, warehousing, repair, and maintenance, for example. Barriers to access to national markets for post-production services may therefore act to inhibit trade in goods as well wherever there are elements of simultaneity.

Singapore herself has a very liberal regime in trade in services. There is virtually no restriction on import of services. There has been no discrimination in favour of Singapore registered fleets in the transportation of Singapore's goods. Citizens are free to travel abroad without restriction on the amount of funds they bring abroad. Many

engineering projects have been awarded to foreign firms. An overwhelming number of foreign banks maintain a presence in Singapore - the number was 124 as of March 1991.

IX. Policies to Maintain Competitiveness of Singapore's Trade in Services

Both manufacturing and services will remain twin engines of growth for Singapore. Efforts are aimed at evolving Singapore into a global city with total business capabilities.

In order to improve the competitiveness of the services sector, new opportunities and markets must be explored, besides the upgrading of existing services industries. Fiscal incentives to promote higher value-added services activities have been introduced. At the same time, Singapore will continue to upgrade the skills of her workforce, and invest in world-class transport and telecommunication infrastructure.

9.1 New Services Activities

Some of the new opportunities that are being explored are:

- (a) **Operational Headquarters Base** - Over the last couple of decades, many international manufacturing firms have established operations in the region. The extensive regional operations have prompted several of these companies to consider decentralising some of their corporate services to a regional base. Singapore's cost-competitive and efficient business environment, can meet the needs of international companies in this area. Furthermore, our 3 decades of experience in manufacturing would put us in a good stead to provide technical support to industries in the region.
- (b) **IT Services** - Information technology (IT) is a key technology of the 1990s. The global demand for IT services will continue to grow rapidly. Singapore has adopted as a strategy the use and exploitation of IT to enhance our productivity and overcome the limitations of a small workforce.

- (c) **Sophisticated Financial Services** - Activities such as derivatives trading, development of trading systems and software for program and arbitrage trading, and financial research and development will enhance the sophistication and diversity of Singapore's financial sector.
- (d) **Education and Medical Services** - As the standard of living in the region rises, there will be increasing demand for high quality education and medical services. With a strong base in these two areas and a strategic location, Singapore has the potential to develop into a major exporter of medical and educational services.

9.2 Upgrading of Traditional Services Sectors

Certain adjustments have also been implemented to further consolidate Singapore's niche in the traditional areas of port services⁶ and tourism. Operations at port terminals would be more customised, utilizing the latest container handling and information technology to achieve reliability, speed and operational flexibility. Massive port expansion plans are also underway, to double the existing box capacity by mid-1990s. To further promote Singapore as an international air traffic junction, Singapore continues to adopt the "open skies" policy.

Singapore also continuously diversifies its tourist-generating markets, by exploring the potential in some North-Western European countries, Taiwan and Korea. While increasing the number of visitor arrivals should be the main target, Singapore also aims to attract the high-spending, high-yield tourists, especially business visitors attending conventions and trade exhibitions. The Suntec City Project, once completed in 1995, will house one of the biggest exhibition and convention facilities in the Asia-Pacific region.

9.3 Increased Integration

Industries (services included) do not operate in isolation. There are vertical and horizontal links to suppliers and customers, which have

6. A recent study by the National University of Singapore showed that the port has a multiplier effect of 2.35, meaning that every dollar earned by the port generates 2.35 dollars for shopkeepers, lawyers, bankers and others.

a major influence on the overall competitiveness of an industry. Such group of industries, or clusters, must be considered in any kind of development planning, just as much as individual industries.

To this end, the Singapore Economic Planning Committee (EPC), in cooperation with the private sector has identified key clusters (see Appendix 7.6 for example of a cluster). Each cluster would have some features common to consistent industries, representing a common thread which unites the cluster. Strategic plans within each cluster are focused on:

(a) Developing Core Capabilities

Generally the core capabilities are either a natural endowment (eg strategic location), created competitive advantage (e.g. political stability, infrastructure) or industry attributes (e.g. flexibility and responsiveness). The government is prepared to invest in these core capabilities or provide special incentives to accelerate their development.

(b) Upgrading Path

With the vision of becoming a developed country, it is also expected that industries will eventually have a capability profile similar to that of corresponding industries in the developed countries.

9.4 Regional Cooperation

Efforts toward regional economic integration among developing countries can be strengthened by greater emphasis on the service sector as a means of facilitating intra-regional trade in both goods and services. Collaboration among member states of such groupings can also assist in penetrating world markets for services and obtaining better conditions for the transfer of technology. Regional cooperation could be sought in establishing telecommunication infrastructure and information network systems which could be connected to global networks facilitating the international flow of services. The development of the Singapore-Riau-Johor Growth Triangle is a milestone in this respect.

BALANCE OF PAYMENTS (Million US Dollars)

	1976	1977	1978	1979	1980	1981	1982	1983	1984	1985	1986	1987	1988	1989	1990	1991
Current Account Balance	-567.3	-295.1	-432.5	-735.8	-1562.5	-1469.5	-1286.1	-610.2	-584.8	-5.5	318.6	-157.6	889.0	2438.5	2169.6	4208.0
Goods and Services (Net)	-518.3	-250.7	-413.6	-700.8	-1456.2	-1316.7	-1091.0	-495.3	-162.1	209.6	501.6	76.2	1188.2	2808.0	2573.6	4688.1
Merchandise Trade Balance	-2223.8	-1983.8	-2504.0	-3049.8	-4200.7	-6123.2	-6761.6	-5821.5	-4071.2	-2828.8	-2065.4	-2446.4	-2345.1	-2447.0	-5119.1	-1128.2
Exports	6217.8	7745.3	9586.4	13400.4	18199.8	19651.8	19341.6	20424.4	22662.5	21534.1	21356.2	27465.9	37993.0	42329.6	50683.4	56819.1
Imports	8441.7	9729.2	12090.4	16450.2	22400.5	25785.0	26435.9	26424.9	27033.6	24362.9	23401.6	29910.3	40338.1	45086.6	58022.6	69047.3
Services Balance	1705.6	1733.2	2090.4	2349.0	2744.5	4866.6	5670.6	5126.2	3909.1	3038.4	2567.0	2522.5	3533.3	5255.0	7692.8	8816.3
Services Balance excluding investment income	1745.8	1816.8	2116.6	2392.8	3173.6	5338.6	6096.6	5516.0	3538.4	2407.3	2054.5	2431.6	3145.0	4447.8	6440.7	6984.4
Exports of Services	3169.3	3485.7	4191.5	5248.4	7038.6	9704.7	10951.7	10597.4	9184.3	8197.2	8439.0	10347.7	13162.0	16225.0	21677.4	24208.7
Shipment	142.3	196.9	288.3	418.5	551.0	656.9	687.6	696.6	709.2	682.3	698.9	891.6	1222.1	1482.6	1626.8	1803.1
Travel	512.5	622.2	810.7	1121.6	1433.0	1792.2	1885.1	1994.2	1858.8	1650.4	1767.2	2139.7	2621.5	3396.7	4719.0	5016.2
Investment Income	369.4	391.4	527.5	805.6	953.2	1092.2	1242.4	1300.0	1602.6	1814.0	2219.1	2900.4	3790.2	4483.0	5974.6	7122.5
Official Transaction	38.7	41.0	45.8	49.7	81.3	97.6	104.2	101.3	109.0	99.0	96.9	98.1	104.7	103.7	101.6	92.8
Other Transportation and Services	2106.3	2234.2	2519.2	2853.0	4020.1	6065.8	7032.4	6305.4	4904.8	3941.5	3656.9	4317.8	5423.6	6649.0	9255.3	10174.1
Imports of Services	1463.7	1752.5	2101.1	2899.4	4294.2	4898.2	5281.1	5171.2	5275.2	5138.8	5872.1	7825.1	9628.7	10969.9	13984.6	15392.4
Shipment	473.0	555.9	628.4	842.1	1237.4	1374.3	1530.1	1456.7	1501.1	1508.0	1581.3	1891.7	2579.5	2906.9	3743.8	4092.2
Travel	175.0	197.4	235.0	271.7	332.8	374.5	480.3	561.8	601.1	613.3	644.9	794.9	930.1	1333.6	1821.2	2019.1
Investment Income	489.6	475.0	553.7	849.4	1382.4	1644.3	1668.3	1389.8	1251.8	1182.9	1706.6	2809.5	3401.9	3673.8	4722.5	5280.6
Official Transaction	7.4	9.5	8.1	12.0	22.1	26.0	31.0	35.6	38.0	41.7	41.2	44.8	64.5	54.5	83.5	93.3
Other Transportation and Services	398.7	514.7	675.9	924.2	1319.4	1479.2	1571.3	1727.3	1883.2	1812.9	1898.0	2284.2	2652.8	2999.2	3614.6	3897.2
Unrequited Transfers (Net)	-49.0	-44.4	-38.9	-35.0	-106.3	-152.8	-205.0	-214.9	-222.7	-213.2	-183.0	-233.7	-295.2	-379.5	-404.1	-480.1
Private	-45.7	-40.8	-35.7	-30.9	-104.0	-144.6	-194.2	-214.0	-222.7	-205.1	-171.8	-169.9	-208.9	-254.2	-270.9	-338.5
Official	-3.3	-3.6	-3.2	-4.0	-2.3	-8.2	-10.9	-8.2	-8.7	-8.1	-11.2	-63.8	-90.4	-125.4	-133.2	-141.6
Capital Account (Net)	849.0	606.8	1013.1	997.8	1582.4	2167.1	2308.7	2462.4	1579.8	698.6	444.4	469.9	987.7	1627.3	6441.3	3107.5
Non-Monetary Sector	755.7	520.3	718.9	1181.8	1446.2	1696.2	1974.1	1125.3	829.6	1101.2	1295.5	1329.5	1979.2	2970.0	4761.2	4042.3
Private	725.0	397.6	713.5	1198.0	1461.5	1711.8	1980.0	1210.3	841.4	1179.2	1376.4	1349.3	1999.3	3012.4	4796.7	4056.1
Official	-40.8	122.8	5.4	-16.1	-15.3	-15.5	-14.9	-85.0	-11.7	-18.0	-80.9	-20.4	-20.2	-42.5	-35.5	-13.9
Monetary Sector	83.3	86.5	294.1	-184.1	136.2	470.9	334.5	1337.1	750.2	-462.7	-1739.9	-859.6	-991.5	-1342.7	1680.1	-934.7
Commercial Banks' Assets / Liabilities	-546.1	-260.7	-353.1	-974.1	-363.5	-1785.6	389.6	-799.7	-2227.7	-1369.9	-2763.4	-1560.2	-2520.0	-2380.2	2708.1	1055.5
Allocation of SDRs	429.4	347.2	649.3	790.0	499.7	2256.6	-55.1	2136.8	2977.9	927.2	1035.5	700.6	1528.6	5937.5	-1028.3	-1990.2
Errors and Omissions	0.0	0.0	0.0	6.6	6.8	8.3	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Overall Balance	16.8	1.2	104.1	254.5	642.9	211.5	163.8	-793.5	328.9	642.1	680.9	793.3	-215.2	-1320.6	-3153.0	-315.9
	298.4	312.9	664.7	523.0	669.6	917.5	1176.4	1058.7	1524.9	1337.1	555.1	1105.7	1661.5	2735.1	5457.8	4199.7

1/ Increase in assets is indicated by a minus sign.

BALANCE OF PAYMENTS
(Annual Percentage Change)

	1976	1977	1978	1979	1980	1981	1982	1983	1984	1985	1986	1987	1988	1989	1990	1991
Current Account Balance	2.9	48.0	-53.4	-62.6	-112.3	6.0	11.8	52.9	36.9	99.1	9087.4	-149.5	664.2	173.2	-10.7	91.0
Goods and Services (Net)	4.9	51.6	-65.0	-69.4	-107.8	9.6	17.1	63.8	59.0	229.3	139.3	-84.8	1460.1	136.3	-8.3	82.2
Merchandise Trade Balance	7.4	10.8	-26.2	-21.8	-37.7	-45.8	-10.4	14.9	30.1	30.5	27.0	-18.4	4.1	-4.3	-109.2	19.4
Exports fob	21.7	24.6	23.8	39.8	35.8	8.0	-1.2	5.1	11.0	-5.0	-0.9	28.7	38.3	13.8	17.2	12.1
Imports fob	12.4	15.3	24.3	36.1	36.2	15.1	1.6	0.2	1.9	-8.0	-3.9	27.8	34.9	13.3	22.1	9.2
Services Balance	-8.1	1.6	20.6	12.4	16.8	75.1	18.0	-4.3	-28.0	-22.3	-15.5	-1.7	-40.1	-48.7	-46.4	14.6
Services Balance excluding investment income	-4.1	4.1	16.5	13	32.6	68.8	13.8	-3.5	-35.5	-32.3	-14.7	18.4	29.3	41.4	44.8	8.4
Exports of Services	0.1	10.0	20.3	25.2	34.1	37.9	12.8	-3.2	-13.3	-10.7	3.0	22.6	27.2	23.3	33.6	11.7
Shipments	-40.5	38.3	-46.4	-45.2	31.6	19.2	4.7	1.3	1.8	-3.8	2.4	27.6	37.1	13.1	17.7	10.8
Travel	8.6	21.4	30.3	38.3	27.8	25.1	5.2	5.8	-6.8	-10.7	6.4	21.1	22.5	26.1	42.7	6.3
Investment Income	-2.6	6.0	34.8	52.7	18.3	14.6	13.7	-4.6	23.3	13.2	22.3	30.7	30.7	18.3	33.3	19.2
Official Transactions	-49.2	5.8	11.8	8.4	63.7	20.0	6.8	-2.8	7.6	-9.1	-2.1	1.2	6.7	-1.0	-2.0	-8.6
Other Transportation and Services	-1.5	6.1	12.8	13.3	40.9	50.9	15.9	-7.5	-24.6	-19.6	-7.2	18.1	25.6	28.1	33.2	9.9
Imports of Services	11.7	17.7	19.9	38.0	48.1	14.1	7.8	-2.1	2.0	-2.2	13.8	33.3	23.0	13.9	27.5	10.1
Shipments	3.7	17.5	13.0	34.0	47.0	11.1	11.3	-4.8	3.0	0.5	4.9	19.6	36.4	12.7	28.8	9.3
Travel	3.6	12.8	19.0	15.6	22.5	12.5	28.2	17.0	7.0	2.0	5.2	23.2	17.0	43.4	36.6	10.9
Investment Income	18.8	16.0	16.6	53.4	62.8	18.9	1.5	-16.7	-9.9	-5.5	-41.3	64.6	21.1	8.1	28.5	12.0
Official Transactions	12.6	28.4	-14.5	-48.1	83.3	17.6	19.4	14.8	6.6	9.9	-1.3	8.8	-43.9	-15.6	53.4	11.6
Other Transportation and Services	19.2	29.1	31.3	36.7	-42.8	12.1	6.2	9.9	9.0	-3.7	4.7	20.3	16.1	13.1	20.5	7.8
Unrequited Transfers (Net)	-25.9	9.4	12.4	10.0	-203.7	-43.7	-34.2	-4.8	-3.6	4.3	14.2	-27.7	-28.0	-26.8	-6.5	-18.8
Private	-18.7	10.8	12.6	13.2	-235.9	-39.1	-34.3	-6.5	-3.5	4.2	16.2	1.1	-22.9	-21.7	-6.6	-25.0
Official	-763.7	-10.0	11.0	-26.1	-42.3	-250.7	-33.0	24.8	-6.5	7.2	-38.5	-469.5	-11.6	-38.7	-6.2	-6.3
Capital Account (Net)	-46.5	-28.5	67.0	-1.5	58.6	37.0	6.5	6.7	-35.8	-55.8	-163.6	205.7	110.2	64.8	295.8	-31.8
Non-Monetary Sector	14.5	-32.0	38.2	61.4	22.4	17.3	16.4	-43.0	-26.3	40.0	11.6	2.6	48.9	50.4	60.3	-15.1
Private	9.8	-45.2	79.5	67.9	22.0	17.1	16.2	-39.2	-30.5	40.2	16.7	-1.9	48.1	50.7	59.2	-15.4
Official	462.4	201.3	-95.6	-398.4	5.4	-1.7	-4.0	-470.1	86.2	-53.2	-550.7	74.8	1.2	-110.4	16.3	60.9
Monetary Sector	193.2	3.8	240.2	-162.6	174.0	245.8	-29.0	359.7	-43.9	-161.7	-176.1	50.6	-15.3	-35.3	225.1	-155.6
Commercial Banks' Assets	-76.8	24.7	-36.2	-174.3	62.7	-391.2	121.8	-305.3	-178.6	37.6	-58.8	43.5	-61.5	-188.9	137.2	-61.0
Commercial Banks' Liabilities	303.6	-19.1	87.0	21.7	-36.7	351.6	-102.4	4978.6	39.4	-68.9	10.4	-31.5	118.2	288.4	-117.3	-93.5
Allocation of SDRs	...	...	...	...	3.0	23.0	-100.0	...	...	...	...	...	...	...	...	...
Errors and Omissions	-95.9	92.9	865.6	144.5	152.6	-467.1	-22.6	-554.5	141.5	95.2	6.0	16.5	-127.1	-513.8	-138.8	1.2
Overall Balance	-26.8	4.8	112.4	-21.3	28.0	37.0	28.2	0.0	43.9	-12.3	-88.5	99.2	50.3	64.6	99.5	-23.1

BALANCE OF PAYMENTS (NET)

	1976	1977	1978	1979	1980	1981	1982	1983	1984	1985	1986	1987	1988	1989	1990	1991
	Million US Dollars															
Current Account Balance	-567.3	-295.1	-452.5	-735.8	-1562.5	-1469.5	-1256.1	-610.2	-384.8	-3.5	318.6	-157.6	889.0	2428.5	2169.6	4208.0
Services Balance	1705.6	1733.2	2090.4	2349.0	2744.5	4806.6	5670.6	5426.2	5909.1	3038.4	2567.0	2522.5	3533.3	5255.0	7692.8	8816.3
Services Balance excluding investment income	1745.8	1816.8	2116.6	2392.8	3173.6	5338.6	6096.6	5516.0	3538.4	2407.3	2054.5	2131.6	3115.0	4477.8	6140.7	6984.4
Shipment	-330.7	-359.0	-340.1	-423.5	-686.5	-717.4	-842.5	-760.1	-791.9	-825.7	-982.4	-1000.1	-1357.4	-1524.4	-2116.0	-22389.1
Travel	337.5	424.8	575.7	849.9	1100.2	1417.7	1404.8	1432.4	1257.7	1047.1	1122.2	1344.8	1691.4	1973.1	2897.8	2997.1
Investment Income	-80.2	-83.6	-26.2	-13.8	-429.2	-552.0	-425.9	-89.8	350.7	631.1	512.5	90.9	388.3	807.3	1252.1	1831.9
Official Transaction	31.3	31.5	37.7	37.6	59.2	71.6	73.2	63.6	71.0	57.3	55.8	53.3	-40.2	-49.2	18.0	-0.4
Other Transportation and Services	1707.6	1719.5	1843.3	1928.8	2700.7	4586.7	5401.1	4778.1	3021.6	2128.6	1758.8	2033.6	2770.8	3949.8	5640.8	6276.9
Annual Percentage Change																
Services Balance	-8.1	1.6	20.6	12.4	16.8	75.1	18.0	-4.3	-28.0	-22.3	-15.5	-1.7	-40.1	-48.7	46.4	14.6
Services Balance excluding investment income	-4.1	4.1	16.5	13.0	32.6	68.8	13.8	-9.5	-35.5	-32.3	-14.7	18.4	29.3	41.4	44.8	8.4
Shipment	6.8	-8.6	5.3	-24.5	-62.1	-4.5	-17.4	9.8	-4.2	-4.3	-6.9	-13.3	-35.7	-12.3	-38.8	-8.2
Travel	11.4	25.9	35.5	47.6	29.5	28.9	-0.9	2.0	-12.2	-16.7	7.2	19.8	25.8	16.7	46.9	3.4
Investment Income	-216.5	-108.0	64.7	-67.3	-880.3	-28.6	22.8	78.9	490.7	80.0	-18.8	-82.3	327.2	107.9	55.1	46.3
Official Transaction	-55.0	0.5	19.7	-0.2	57.4	20.9	2.2	-10.3	8.2	-19.3	-2.6	-4.4	-24.5	22.4	-63.3	-102.2
Other Transportation and Services	-5.3	0.7	7.2	4.6	-40.0	69.8	19.1	-12.5	-36.8	-29.6	-17.4	15.6	36.3	-42.5	42.8	11.3

**INDICATION OF DIRECTION OF FLOWS
FOR TOURIST TRADE**

(Per Cent of Total)

Receipts

Tourist Arrivals

Period	Asean	NIEs	Japan	US	Europe	Others
1980	40.1	6.0	11.2	5.3	16.1	21.3
1985	33.3	7.0	12.5	5.0	15.5	26.7
1990	27.1	9.9	18.3	4.9	17.7	22.1

Payments

Returning Singapore Resident

Period	Asean	Hong Kong and Taiwan	Japan	US	Europe	Others
1980	53.2	20.6	2.3	2.2	6.8	14.9
1985	50.0	24.4	3.4	1.9	6.3	14.0
1990	61.2	14.9	2.5	2.2	4.6	14.6

**DESCRIPTION OF DATA SERIES USED IN
REGRESSION ANALYSIS**

Abbreviation	Description
bxsf	Freight and insurance receipts
tt85	Total trade, 1985 prices
nkfi85_teq	Cumulative gross investment in transport equipment, 1985 prices
frate65	Index of cargo trip charters fares 1965=100, Norwegian Shipping News
bmsfi	Freight & insurance payments
tm85	Trade imports, 1985 prices
bxstv	Travel receipts
pcpi78	Consumer price index, 78=100
ngdp85_fortoure	Foreign GDP, weighted by tourist market
reer85_tourn	S\$ real effective exchange rate, weighted by competitors to tourist trade
bmstv	Travel payments
popn	Population of Singapore
reer85_tourout	S\$ real effective exchange rate, weighted by destination of Singaporean travellers

Cluster Analysis Summary

1. Cluster: Shipping

2. Lead Agency: Port of Singapore Authority

Other agencies with major involvement:
Trade Development Board

3. Vision Statement:

- . To strengthen and broaden Singapore's position as a leading maritime hub.
- . To establish Singapore as one of the regional headquarters for shipping and ship management activities.
- . To promote efficient feeder shipping services by shipping lines.

4. Desired Upgrading of Cluster to Achieve SEP Objectives

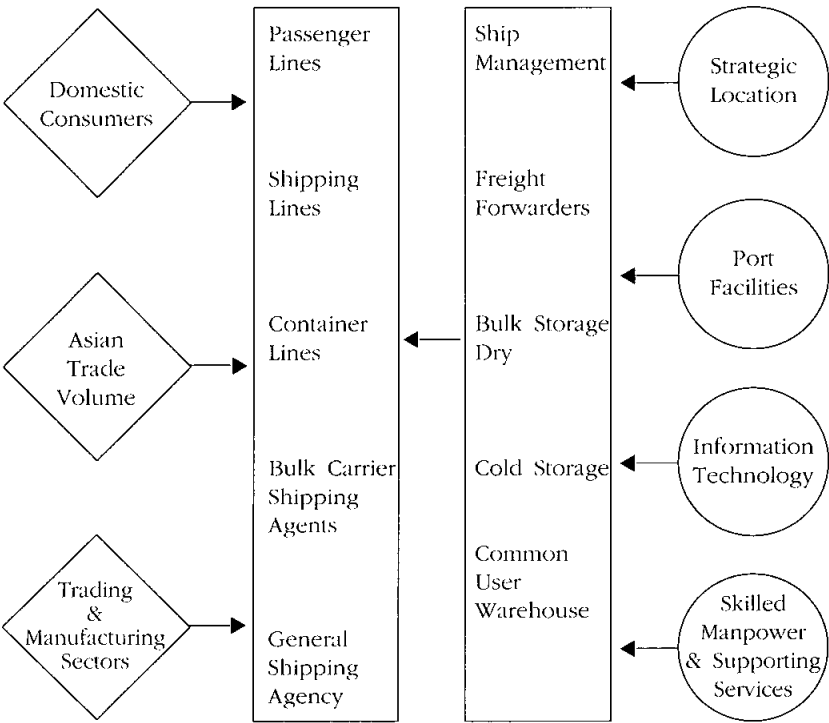
- . Evolve Singapore into a leading maritime hub and headquarter for shipping and ship management companies.
- . Promote locating of warehouses at source countries or other locations with efficient feeder ports.
- . Improve efficiency in usage of land.

Cluster Composition

Legend:

-  Industry Drivers
-  Core Activities
-  Secondary Activities
-  Secondary Activities (not in cluster)
-  Core Capabilities

Shipping Cluster



Chapter 8

TRADE IN SERVICES IN SRI LANKA

by

Sumedha de Silva

I. Introduction

This chapter examines the developments and issues arising from trade in non factor services for the period of 1976 to 1990. The main emphasis is on its effect on the balance of payments rather than on the whole economy. Section II gives an overview of the developments in trade in Sri Lanka. Concepts and definitions, role of services in the economy and issues relating to comparative advantage are discussed in this section. Section III discusses the current issues and problems in trade in services. Developments in the tourist trade in Sri Lanka, the effect of market access in trade in services in general and constraints in data collection are included in this section. Section IV deals with the policy measures undertaken to develop trade in services in Sri Lanka. Finally, it evaluates the non factor services sector in relation to the discussions presented in the previous sections.

II. Overview of the Development of Trade in Services in Sri Lanka

For the period of 1950s to 1977, Sri Lanka's economy was predominantly state regulated. Industry, trade and finance were subject to state regulation through licensing procedures, quotas, price controls, heavy taxes and subsidies and also through public ownership of a larger segment of industry and trade. The emphasis was more on import substitution, which was supported by quantitative restrictions on imports, high tariff and payment controls on both current and capital transactions.

This scenario changed in 1977 with the change in government, where the new government, pursued policies towards a more market oriented economy. Massive liberalization measures were undertaken where open and free market economic policies were introduced with emphasis on an export oriented economy and government intervention was kept at a minimum in order to allow market forces to operate.

Some of the main liberalization measures taken were:

- (1) Reducing the role of the state in economic activity by curtailing public sector monopolies, introducing competition and privatisation of state owned enterprises.
- (2) An open door policy regarding foreign investment through offering attractive incentives and tax holidays for investors and invitation to foreign banks to open branches.
- (3) Relaxation of controls regarding the international trade and payments system (imports, exchange payments and remittances).

Hence the period under this study coincides with the period during which Sri Lanka adopted open market policies.

2.1 Concepts and Definitions on International Transactions in Services

Defining services has been complicated because of the heterogeneous nature of services. Definition based on various aspects have been attempted but some of these are inadequate or inaccurate. There are two major approaches in defining services in international trade. The 'location' approach, which the IMF adopts, is based on the location of the producer and the consumer of traded services. The 'ownership' approach considers the ownership of the production unit providing the services. Under this concept all services provided by foreign-owned firms are attributed to the country of the owner.

The definitions adopted in this study are those used by the IMF, as this concept is used in compiling Balance of Payments (BOP) data for Sri Lanka. According to the IMF definitions, only non-factor services can be traded internationally, which include, shipment, other transportation, travel, official services and other private services. These are categorised into two groups based on the distinction between services that cross international borders and those that do not. The second category consists of services which are consumed by foreigners in the home country and by domestic residents in a foreign country, which include service transactions such as tourism, harbour and airport services.

2.2 Role of Services with Respect to Contribution to the Domestic Economy as Well as International Trade

2.2.1 *The Developments of Services in the Domestic Economy*

Services considered in this section not only include those which are traded but also those services which are consumed domestically. Table 8.1 gives the break down of the services sector as used in the computation of the Gross Domestic Product (GDP). The services sector has grown at an annual average of about 7.3 per cent over the period 1976-1990 as against 5.0 per cent for the manufacturing sector. During the period 1979 to 1983 it grew at an average annual rate of 15.6 per cent and by 6.8 per cent after that. The manufacturing industry grew by 5.8 per cent and 7.1 per cent during the respective periods. In terms of current factor cost the services sector has accounted for about 46.2 per cent of the GDP for the period 1976 to 1990 while the manufacturing sector has accounted for about 16.7 per cent during the same period. In terms of constant factor cost the services sector has accounted for 50.5 per cent while the agricultural sector had accounted for about 47.9 per cent (Table 8.2).

2.2.2 *The Development of the Services Account with respect to the Balance of Payments*

The term 'services' will be used to refer to non factor services which are traded internationally, unless otherwise specified.

Non-factor services in the Sri Lanka BOP is compiled in accordance with the definitions set out by the IMF. The major components and their coverage are given below.

- (1) Freight and merchandise insurance:
Includes freight on imports and exports, insurance premiums and claims on exports and imports and other merchandise insurance claims.
- (2) Other transportation
 - i. Passenger fares
 - ii. Port expenditures
 - iii. Other

Table 8.1

SERVICES AND MANUFACTURING INDUSTRIES OF GROSS DOMESTIC PRODUCT (At current factor cost)

(Million US Dollars)

Item	1976	1977	1978	1979	1980	1981	1982	1983	1984	1985	1986	1987	1988	1989	1990	Average
Services																
Utility Services	106.1	112.1	17.4	108.6	124.5	133.9	208.5	217.3	219.3	228.4	254.5	246.2	243.4	239.6	269.3	
Commercial Services	915.8	979.1	674.7	910.7	979.2	1117.7	1458.7	1458.4	1678.2	1686.7	1774.6	1840.2	1967.1	1934.5	2258.1	
Financial Services	49.6	59.2	54.1	79.8	108.0	128.0	178.5	177.8	171.8	209.6	244.1	253.1	283.0	291.2	330.1	
Public Administration	112.1	128.6	97.1	106.9	118.8	122.1	139.3	174.3	209.2	234.7	283.6	288.7	317.4	377.3	395.4	
Other Services (net)	292.2	282.1	208.7	253.3	317.3	367.4	221.2	230.1	249.4	233.7	240.1	237.8	243.6	248.4	297.1	
Total Services	1475.8	1561.1	1112.3	1459.4	1647.8	1869.1	2206.2	2258.3	2528.4	2593.1	2796.9	2866.1	3084.5	3091.3	3550.0	
Manufacturing	664.8	876.5	518.6	669.2	668.2	669.6	653.5	678.2	821.2	801.4	887.6	966.9	984.0	969.3	1076.5	
G.D.P.	3315.8	3789.4	2593.5	3197.5	3764.6	4123.5	4549.2	4840.0	5505.1	5460.5	5843.3	6036.1	6398.5	6328.9	7251.3	
MFR/GDP 1 — Current Factor	20.35 %	23.13 %	20.00 %	19.05 %	17.75 %	16.24 %	14.37 %	14.01 %	14.92 %	14.73 %	15.19 %	16.02 %	15.38 %	15.32 %	14.35 %	16.73 %
Services GDP 1 — cost	44.51 %	41.20 %	42.88 %	45.64 %	43.77 %	45.33 %	48.50 %	46.66 %	45.93 %	47.49 %	47.87 %	47.48 %	48.21 %	48.34 %	48.96 %	46.22 %
Services GDP 1 — Constant factor	15.37 %	14.66 %	14.60 %	14.37 %	15.23 %	13.62 %	14.37 %	13.30 %	14.74 %	14.78 %	15.37 %	16.17 %	16.48 %	16.83 %	17.35 %	15.18 %
Services GDP 1 — cost	51.22 %	51.55 %	51.23 %	51.93 %	53.02 %	50.91 %	48.50 %	49.31 %	50.21 %	49.70 %	49.70 %	50.30 %	50.06 %	50.51 %	49.63 %	50.52 %

Source: Central Bank of Sri Lanka.

Table 8.2**PERCENTAGE OF LABOUR FORCE IN THE
DIFFERENT SECTORS**

Sector	1978/79	1981/82	1986/87
1. Agriculture and Fishing	51.31	49.18	47.85
2. Mining and Quarrying	1.18	1.71	1.90
3. Manufacturing	13.59	12.66	13.37
4. Construction	4.98	5.60	5.64
5. Services	28.22	30.51	30.50
6. Other	0.72	0.35	0.75
TOTAL	100.00	100.00	100.00

Source: Central Bank of Sri Lanka.

Includes passenger fares, port disbursements, demurrage, dispatch money, charter hire and other miscellaneous transportation.

(3) Travel

Includes sale and purchase of travelers cheques, remittance for education, medical purposes etc.

(4) Government expenditure

Includes diplomatic expenditure, military expenditure, government pensions and gratuities, contributions to international bodies etc.

(5) Other

- i. Non-merchandise insurance - Including premiums and claims on life insurance, reinsurance and other insurance.
- ii. Other - Consists of transactions relating to professional services, agency and head office charges, commissions on exports, imports and other services, royalties, advertisements etc.

It would be appropriate to look into the developments in the BOP as a whole during the period 1976 to 1990. With the introduction of the open economic policy, there was a rapid growth in merchandise trade. Both imports and exports grew but the growth in imports was more than that of exports. Sri Lanka has been a net importer of merchandise goods, both consumption and intermediate, where these categories have accounted for about 80 per cent of the total import content during the last five years. Hence Sri Lanka experienced large deficits in the merchandise trade account. The merchandise trade account has been in deficit since 1977 and so has been the current account, since the contribution of merchandise trade to the current account has been large, compared to services and transfers. Receipts from exports of goods has accounted for 65.3 per cent of the current account receipts for the period 1976 to 1990 while payment on import of goods has accounted for 83.8 per cent of current account payments for the same period (Table 8.3). The movements in the current account has been similar to that of the merchandise trade account. Although both non-factor services and transfers show a positive balance, the combined contribution of these have been inadequate to bridge the gap in the merchandise trade deficit. Hence, the current account has been

negative whenever the merchandise trade balance was negative. With respect to the current account, non-factor services and transfers have accounted for 13.2 per cent and 19.1 per cent of the total receipts while account for 9.0 per cent and 1.0 per cent of the total payments for the period 1976 to 1990 (Table 8.4). Looking at the movements in the overall balance it is observed that the current account is the most influential. With improvements in the current account the overall balance has also shown improvements.

The Sri Lankan services account has been in surplus for the period under consideration except for 1985. However its contribution to the balance of payments has been small compared to the merchandise trade account (Table 8.4). The annual average receipts from services as a percentage of export of goods and services for the given period is about 17.1 per cent, while as a percentage of export of goods, it recorded about 20.8 per cent. The annual average of services imports as a percentage of imports of goods and services has been about 9.8 per cent while as a percentage of import of goods has been about 10.9 per cent. This showed that the services account has little influence on the foreign exchange earnings and payments. However the contribution of the receipts and payments of the services account indicated that the tradeable services contributed more to the export earnings than to import payments. Although the services receipts are more than adequate to compensate for the services payments the surplus is barely sufficient to cover the large merchandise trade deficit (Table 8.5).

Non factor services exports as well as imports have grown over the period of 1976 to 1990 by 19.3 per cent and 20.3 per cent respectively. This indicates that the payments as well as receipts with regard to services have increased over time. Although the increase in services payments has been more than that for receipts, the net effect has been in favour of Sri Lanka. The main contributors to services receipts have been the categories of other transportation, travel and other services, while on the payments side the main components are other transportation and other services (Table 8.6).

1. Freight and Merchandise Insurance

Earnings from freight and merchandise insurance has shown an annual average growth rate of 15.7 per cent for the period of 1976 to 1990. On the payments side the annual average rate of growth has

Table 8.3

TRADE IN SERVICES IN RELATION TO OTHER FOREIGN EXCHANGE TRANSACTIONS

(in Per cent)

Item	1976	1977	1978	1979	1980	1981	1982	1983	1984	1985	1986	1987	1988	1989	1990	Average
Services receipts as ratio of merchandise exports	12.95	12.35	12.33	15.56	21.76	26.26	28.67	27.86	19.05	18.05	25.69	23.52	23.20	22.23	22.46	20.84
Services payments as ratio of merchandise imports	6.05	5.73	8.16	6.20	7.49	9.51	10.61	11.44	11.05	12.37	15.29	15.70	14.76	15.41	13.89	10.91
Services receipts as ratio of total goods and services receipts	11.46	10.99	10.98	13.47	17.87	20.80	22.28	21.79	16.00	15.72	20.44	19.04	18.83	18.19	18.34	17.08
Services payments as ratio of total goods and services payments	5.70	5.46	7.54	5.84	6.97	8.68	9.59	10.27	9.95	11.01	13.26	13.57	12.86	13.35	12.20	9.75
Services receipts as ratio of current account receipts	10.24	9.95	9.77	11.09	14.19	15.80	16.15	15.85	12.10	11.61	14.89	14.12	13.97	13.82	14.40	13.20
Services payments as ratio of current account payments	5.46	5.21	7.19	5.59	6.70	8.07	8.93	9.39	9.04	9.98	12.01	12.21	11.63	12.19	11.19	8.99
Export earnings as ratio of current account receipts	79.10	80.55	79.28	71.25	65.18	60.18	56.32	56.90	63.51	62.24	57.95	60.04	60.19	62.17	64.11	65.27
Import payments as ratio of current account payments	90.28	90.16	88.18	90.26	89.44	84.35	84.17	82.01	81.78	80.70	78.54	77.79	78.79	79.10	80.52	83.77
Transfer receipts as a ratio of current account receipts	10.10	8.25	9.66	14.80	17.77	22.15	25.10	24.85	21.87	22.21	23.92	22.84	23.03	21.67	18.37	19.06
Transfer payments as a ratio of current account payments	0.88	0.96	1.51	0.73	0.68	1.20	1.07	0.86	1.04	1.03	1.27	1.40	1.33	0.97	0.94	1.06
Services refer only to non-factor services																

Source: Central Bank of Sri Lanka.

Chart 8.1

CURRENT ACCOUNT BALANCE

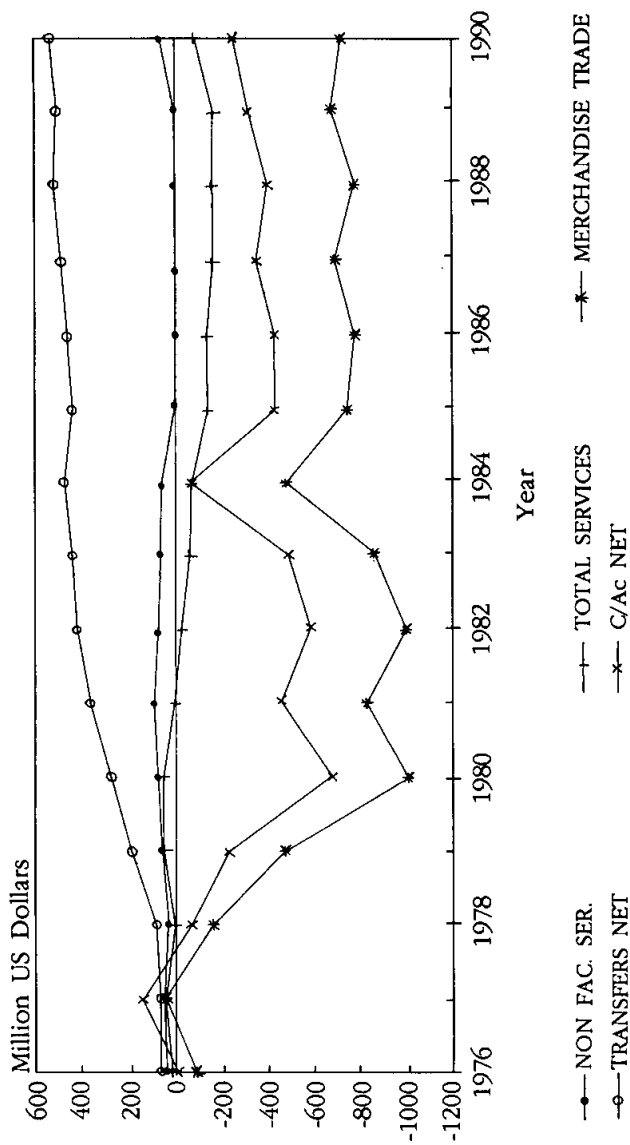


Table 8.4

BALANCE OF PAYMENTS

(Million US Dollars)

Sector	1976	1977	1978	1979	1980	1981	1982	1983	1984	1985	1986	1987	1988	1989	1990
1. Merchandise Trade															
Exports	556.80	725.40	846.20	981.60	1064.60	1065.80	1013.70	1064.20	1462.30	1315.30	1209.70	1395.70	1477.20	1558.40	1983.90
Imports	640.8	687.2	999.5	1449.7	2051.2	1877.5	1994.1	1921.3	1928.1	2044.3	1973.2	2075.1	2240.2	2225.6	2685.9
Net	-84.00	38.20	-153.30	-468.10	-986.50	-811.60	-980.30	-857.20	-465.80	-729.00	-763.50	-679.40	-763.00	-667.20	-702.00
2. Non-factor Services															
Receipts	72.10	89.60	104.30	152.80	231.70	279.90	290.70	296.50	278.60	245.40	310.80	328.30	342.70	346.50	445.60
Payments	38.80	39.70	81.50	89.90	153.70	178.50	211.6	219.90	213.10	252.80	301.70	325.80	330.70	343	373.20
Net	33.30	49.90	22.80	62.90	78.00	101.40	79.00	76.60	65.50	-7.40	9.10	2.50	12.00	3.50	72.40
3. Factor Services															
Receipts	3.90	11.30	20.10	39.50	46.80	33.00	43.80	44.90	58.10	83.20	67.60	69.80	69.10	58.4	96.80
Payments	24.00	28.00	35.30	54.90	72.90	130.00	137.90	181.50	191.80	210.10	205.70	229.40	234.60	217.60	245.10
Net	-20.1	-16.7	-15.2	-15.4	-26.1	-97.1	-94.1	-136.6	-133.7	-126.8	-138.2	-159.6	-165.6	-159.2	-148.3
4. Total Services Net (2+3)	13.20	33.20	7.60	47.60	51.90	4.30	-15.10	-60.00	-68.20	-134.30	-129.10	-157.10	-153.50	-155.70	-75.90
5. Total Goods and Non-factor Services Net (1+2)	-50.70	88.10	-130.50	-405.20	-908.50	-710.30	-901.30	-780.60	-400.3	-736.40	-754.40	-676.90	-751.00	-663.60	-629.60
6. Total Goods and Services Net (1+4)	-70.80	71.40	-145.70	-420.60	-934.60	-807.40	-995.40	-917.20	-534.00	-863.30	-892.60	-836.50	-916.5	-822.90	-777.90
7. Transfers															
Receipts	71.1	74.30	96.70	203.80	290.20	392.30	451.80	464.70	503.30	469.40	499.20	531.00	565.10	543.2	568.30
Payments	6.2	7.4	17.1	11.7	15.6	26.6	25.5	20.2	24.5	26.1	31.8	37.3	37.7	27.4	31.4
Net	64.90	66.90	79.60	192.20	274.60	365.70	426.30	444.50	479.00	443.30	467.50	493.70	527.40	515.80	537.00
8. Current Account (5+6)															
Receipts	703.90	900.60	1067.30	1377.70	1633.40	1771.00	1800.00	1870.20	2302.60	2113.30	2087.30	2324.80	2454.10	2506.50	3094.60
Payments	709.80	762.20	1133.40	1606.10	2293.40	2212.70	2369.10	2342.90	2357.60	2533.20	2512.40	2667.60	2843.20	2813.60	3335.50
Net	-5.9	138.3	-66.1	-228.4	-660	-441.7	-569.1	-472.7	-55	-419.9	-425.1	-342.8	-389.1	-307.1	-240.9
9. Non-monetary capital net	69.9	35.6	166.6	212.3	398.3	399.7	526.3	451.2	344.2	333.6	324.6	307.6	261.2	293.1	410.4
10. Overall Balance	62.8	362	119.2	50.9	-179.4	-21.1	-48.5	14.5	277.6	-39	-63.3	-41.6	-105	-52.8	174.7

Source: Central Bank of Sri Lanka.

Table 8.5
RECEIPTS ON TRADE IN SERVICES

(Million US Dollars)

Sector	1976	1977	1978	1979	1980	1981	1982	1983	1984	1985	1986	1987	1988	1989	1990
1. Freight & Merchandise Insurance	2.0	2.0	1.9	2.5	3.4	3.2	4.0	9.0	11.9	10.7	12.6	13.9	15.6	13.4	8.9
2. Other Transportation	23.4	24.0	18.5	26.1	40.4	46.9	54.5	59.7	59.3	63.5	85.9	100.5	111.9	117.3	163.5
2.1 Passenger Fares	3.6	3.3	1.4	1.3	2.1	3.1	5.6	9.0	14.0	20.9	32.5	34.0	36.4	43.3	88.7
2.2 Port Expenditure	18.5	19.4	15.4	21.7	33.9	37.9	43.2	45.9	42.8	42.5	53.2	65.6	74.5	72.4	73.8
2.3 Other	1.3	1.3	1.7	3.1	4.5	5.9	5.8	4.8	2.5	0.1	0.2	0.8	1.0	1.6	0.9
3. Travel	23.4	33.2	48.1	67.6	99.0	116.6	128.7	102.2	101.7	82.2	83.0	71.6	65.1	76.5	139.7
4. Government Expenditure	5.9	5.6	6.9	7.7	7.7	10.4	13.1	16.1	12.0	11.4	13.7	20.7	23.1	21.8	13.5
5. Other Services	17.3	24.8	28.9	48.8	81.1	102.7	90.3	109.5	93.8	77.5	115.6	121.7	126.9	117.5	120.0
5.1 Non-merchandise Insr.	0.8	0.8	0.7	2.1	1.9	2.4	2.3	7.1	8.4	5.4	32.1	8.7	10.6	10.3	16.2
5.2 Other	16.6	24.0	28.2	46.7	79.2	100.3	88.0	102.4	85.4	72.1	83.5	113.0	116.3	107.3	103.8
Total non-factor services	72.1	89.6	104.3	152.8	231.7	279.9	290.7	296.5	278.6	245.4	310.8	328.3	342.7	346.5	445.6
Investment Income	3.9	11.3	20.1	39.5	46.8	33.0	43.8	44.9	58.1	83.2	67.6	69.8	69.1	58.4	96.8
TOTAL SERVICES RECEIPTS	76.0	100.8	124.4	192.3	278.5	312.8	334.5	341.4	336.8	328.6	378.4	398.1	411.8	404.9	542.4

Source: Central Bank of Sri Lanka.

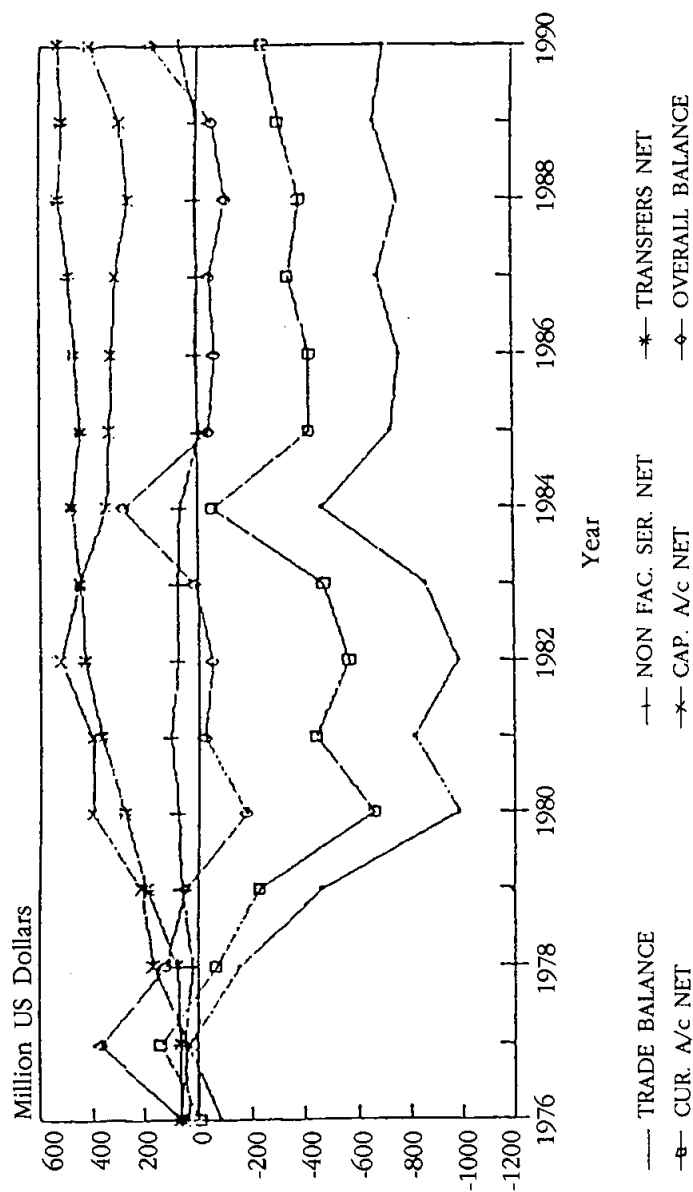
Table 8.6
PAYMENTS ON TRADE IN SERVICES
(Million US Dollars)

Sector	1976	1977	1978	1979	1980	1981	1982	1983	1984	1985	1986	1987	1988	1989	1990
1. Freight & Merchandise Insurance	2.8	2.7	3.2	3.6	4.7	4.1	4.5	6.1	3.4	3.4	4.3	5.6	6.1	5.5	4.8
2. Other Transportation	8.3	8.7	17.2	22.3	29.2	34.2	42.5	53.4	55.4	76.5	97.2	107.9	115.0	134.1	156.8
2.1 Passenger Fares	2.8	3.1	7.7	10.3	11.8	14.4	17.0	15.9	15.4	28.2	37.3	43.8	41.7	46.3	51.3
2.2 Port Expenditure	4.5	4.6	5.1	6.4	10.3	10.9	14.4	18.6	22.0	19.5	24.3	31.0	37.7	40.7	54.5
2.3 Other	1.0	1.1	4.3	5.6	7.1	9.0	11.1	18.8	18.0	28.7	35.7	33.1	35.5	47.0	51.1
3. Travel	2.8	3.6	28.4	29.4	33.6	36.5	40.5	38.9	47.3	46.3	54.2	62.8	67.9	68.9	79.4
4. Government Expenditure	4.3	4.4	4.8	5.2	7.4	7.8	14.2	11.5	11.6	17.0	18.1	19.2	21.0	19.6	15.5
5. Other Services	20.5	20.3	27.9	29.3	78.7	95.8	110.1	110.0	95.4	109.6	127.9	130.4	120.7	114.9	116.7
5.1 Non-merchandise Inscr.	1.6	2.1	2.1	1.6	2.4	2.9	5.5	7.9	10.3	10.2	30.9	17.9	16.9	14.9	10.1
5.2 Other	18.9	18.1	25.8	27.7	76.3	92.9	104.6	102.1	85.1	99.4	97.0	112.5	103.9	100.0	106.6
Total non-factor services	38.8	39.7	81.5	89.9	153.7	178.5	211.6	219.9	213.1	252.8	301.7	325.8	330.7	343.0	373.2
Investment Income	24.0	28.0	35.3	54.9	72.9	130.0	137.9	181.5	191.8	210.1	205.7	229.4	234.6	217.6	245.1
TOTAL SERVICES PAYMENTS	62.8	67.7	116.8	144.7	226.6	308.5	349.6	401.4	405.0	462.9	507.5	555.1	565.3	560.6	618.3

Source: Central Bank of Sri Lanka.

Chart 8.2

BALANCE OF PAYMENTS (1976-1990)



been 6.2 per cent for the corresponding period. The balance of this account has been in deficit up to 1982 after which it has shown a surplus.

2. Other Transportation

Receipts with respect to other transportation has recorded an annual average growth rate of 16.6 per cent while that for payments has been 25 per cent. This account has shown a positive net balance up to 1984. From 1985 to 1989 it has been a deficit while in 1990 it has experienced a positive balance. The main reason for this account to experience a deficit during the past years was due to the increased in the deficit of the miscellaneous transportation account. The balance in the category passenger fares has also been in deficit from 1978 to 1989 while that for port disbursements has been positive for the whole period.

3. Travel

Travel receipts are mainly from the tourist industry. The tourist industry grew at a very rapid rate during the period of 1976 to 1983 after which the growth was hindered due to the internal strife and ethnic conflicts and problems. However, this situation has stabilised and improved during the last two years. Meanwhile, even with unfavourable circumstances for the tourist industry the travel account balance became negative only in 1987 for the period under review. The average annual growth in receipts of this sector has been 17.2 per cent of the period of 1976-1990 even though it has experienced a negative growth from 1983 to 1988. In 1990 it showed a remarkable improvement with the receipts increasing by 82.5 per cent over that of 1989.

On the payments side there has been a large increase between 1977 and 1978. This was due to the restrictions on travel being removed by the new government in 1977, which facilitated travel to Sri Lankans nationals, with respect to business and other activities.

4. Other Services

Other services comprising of non-merchandise insurance of other sectors have been fluctuating over the years. Non-merchandise

Chart 8.3

SERVICES RECEIPTS

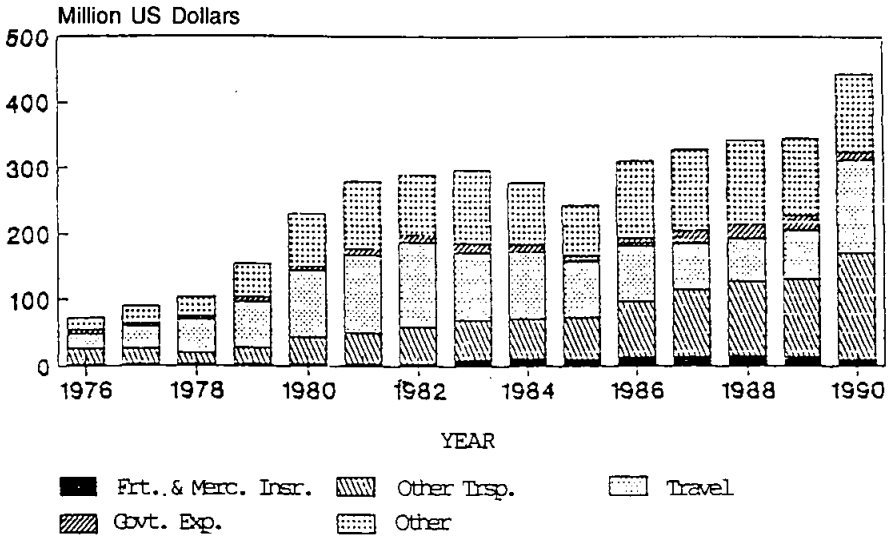
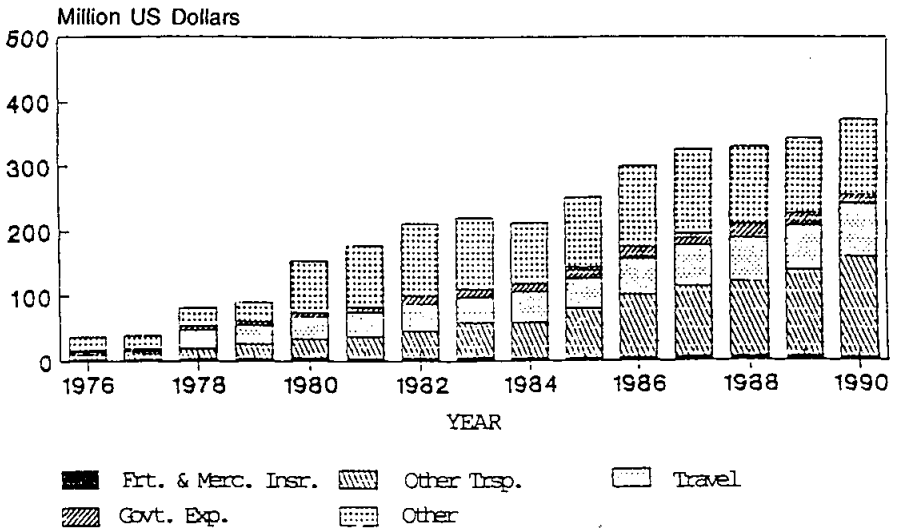


Chart 8.4

SERVICES PAYMENTS



insurance has mainly shown a negative balance while the other category did not show any clear pattern.

Services receipts as a percentage of current account receipts showed an average of 13.2 per cent for the period under consideration. This trend is seen in payments as well where the annual average for the period is about 9.0 per cent of the current account payments (Table 8.4).

It is observed that the non-factor services balance is mainly affected by the travel account balance. The movement in the services balance has been similar to that of the travel account. Although the categories of Other Transportation and Other services contribute substantially to services receipts, they are unable to affect the services balance because they have equally large outlays on the payments side, unlike the travel account. It is observed that the movement in the services balance is similar to that of the travel account. The decline in tourist arrivals since 1983, resulted in a decline of the services balance. This indicated that the services account depends heavily on the tourist industry.

2.2.3 Comparative Advantage in Trade in Services

The comparative advantage one country has over another will determine the extent to which it could provide services at a competitive price, and thereby, function as a net exporter of services. The concept of comparative advantage has not been extensively used in trade in services vis-a-vis trade in goods. This may be due to the fact that interest on trade in services has only emerged very recently as well as the lack of data relating to trade in services. However, recently there has been increasing interest extended towards service transactions. The reasons as enumerated by Sapir and Lutz (1981) in their study are:

- (1) The recognition that trade in services constitute a large portion of international transactions.
- (2) Services being left relatively untouched in international negotiation.
- (3) Slowdown in industrialized economies and the repercussion of this slowdown on the international scene.

- (4) The lack of domestic demand in the industrialized economies for services have made them look into potential markets outside.
- (5) The attempt by developing countries to diversify their exports away from labour intensive goods.

Various factors are said to determine comparative advantages in the trade in services. Capital intensity, composition of trade, distance from trading partners, economies of scale and the availability of human capital are among the most important.

Capital intensity is considered to be a major determinant of comparative advantage. Development of freight services and passenger services is dependent on capital availability since maintaining shipping and airline facilities would rely heavily on the availability of capital resources. It could be said that before a country develops freight services it will have to have a minimum threshold level of imports or exports, for the industry to be viable, i.e. economies of scale effect the development of freight services. The higher the traded volume of goods the higher would be the development of freight services. Development of port facilities, apart from depending on the capital availability, will also depend on the location of the port. The development of the Colombo harbour into a transshipment port can be cited as an example. This is mainly due to Colombo being situated in a central position among the main Asian shipping routes. The port facilities are used to an extent where over 75 per cent of the containers handled at the Colombo port container terminal are transshipment cargoes.

The distance from trading partners would also determine the freight cost. The further away the trading partners, the higher will be the costs on freight services. This phenomenon is seen in the developing countries where a higher cost for freight services is incurred because their main trading partners are the developed countries which are situated a great distance away. The composition of trade would also affect the freight cost, since different type of cargoes will be moved in different carriers, air cargo vis-a-vis marine cargo.

The availability of human capital will have a considerable effect on the development of services which require skilled labour and professional expertise. Services including banking, insurance,

communication etc. are those which would depend on human capital. A well educated labour force with the professional expertise in financial, legal and technical fields will determine the comparative advantage in providing these services.

Travel services mainly depend on the tourist industry in which the main factors that would effect comparative advantage cannot be quantified. Tourism will mainly depend on the tourist attractions available in a country. They could be historical, cultural or recreational sites. However, the infrastructure will also be important in the context of providing accommodation and transportation within the country and to sites of interest, and publicity given abroad.

It has been suggested that countries with abundant physical and human capital will be the ones that are most likely to be service exporters (Sapir and Lutz 1981). This would mean that developing countries will be at a disadvantage in competing in a liberalized environment for the export of services.

As an attempt to quantify the determinants of comparative advantage the following simple econometric models were analyzed. Data for the period 1976 to 1990 was used and simple linear models were analyzed in all cases.

1. Freight Services

$$F = f(X+M), K/L$$

where

F = Net freight receipts at time t

X = Total exports at time t

M = Total imports at time t

K/L = Ratio of capital to labour. Capital was approximated by the total capital formation during the year.

2. Other Transportation

Two separate models were used for receipts and payments respectively.

$$OTC = f(TC, (X+M))$$

$$OTD = f(TD, (X+M))$$

where

OTC = Receipts from other transportation at time t

OTD = Payments for other transportation at time t

TC = Receipts from travel at time t

TD = Payments for travel at time t

3. Travel

Two separate models were used for receipts and another was used for payments.

$$TC = f(GDPF, EXRL, D)$$
$$TC = f(PGDPF, EXRL, D)$$
$$TD = f(PGDP, EXRS)$$

where

GDPF = Weighted average GDP by arrivals of major tourist countries at time t

PGDPF = Weighted per capita GDP by arrivals of major tourist countries at time t

PGDP = Per capita GDP of Sri Lanka at time t

EXRL = Exchange rate index of US\$ per one unit of the Sri Lankan Rupee. (1976=100)

EXRS = Exchange rate index of the Sri Lankan rupee per one unit of US \$. (1976=100)

D = Dummy variable 1976 to 1982 = 0
1983 to 1990 = 1

4. Other Private Services

Two separate models were used for receipts and payments respectively.

$$\text{OPC} = f(\text{GDP}, \text{PGDP})$$
$$\text{OPD} = f(\text{GDP}, \text{PGDP})$$

where

OPC = Other private services receipts at time t

OPD = Other private services payments at time t

$$\text{GDP} = \text{GDP for Sri Lanka}$$

2.2.4 Results of the Regressions

The results of the regressions are given below. t statistics for the coefficients are given within brackets. * indicates significance at 5 per cent level.

1. Freight Services

$$F = -6.69 + 0.0018(X+M) + 0.0207K/L$$

(0.69) (0.59)

$$R^2 = 0.44$$

$$F = 4.75^*$$

The results showed that although the coefficients of the independent variables are not significant at 5 per cent level the signs of these are acceptable. One would expect a country to increase its freight services when the total merchandise trade increases. Similarly since freight services are capital intensive one would expect a country to increase its freight services at times when the capital to labour ratio is high.

2. Other Transportation

$$OTC = -49.44 - 0.4744TC + 0.0523(X+M)$$

(-2.16) (6.58)*

$$R^2 = 0.83$$

$$F = 29.33^*$$

Receipts from other transportation showed a negative relationship with receipts from travel and a positive relationship with total merchandise trade. While the relationship with total merchandise trade is acceptable, that of travel receipts is not. However, the coefficient is not significant and the negative sign may be due to the irregularities observed in the travel account after 1983 due to the ethnic crisis.

$$OTD = -5.80 + 2.5623TD - 0.0134(X+M)$$

(3.85) * (-0.84)

$$R^2 = 0.89$$

$$f = 49.33^*$$

In the case of payments, which, in contrast to receipts, the relationship with travel payments is acceptable while that with total merchandise trade is not. This may be due to the developments in the port services which have taken place during this period, which, in turn would have resulted in a lesser rate of increase in the payments with respect to other transportation services when compared with the increase in merchandise trade.

3. Travel

$$\begin{aligned} \text{TC} &= 170.59 + 1.47 (10^{-6})\text{GDPF} - 158.89\text{EXRL} - 35.83\text{D} \\ &\quad (0.05) \quad \quad \quad (-2.46)^* \quad \quad (-1.68) \end{aligned}$$

$$\begin{aligned} R^2 &= 0.44 \\ F &= 2.62^* \end{aligned}$$

$$\begin{aligned} \text{TC} &= 167.98 + 0.0002\text{PGDPF} - 156.94\text{EXRL} - 35.85\text{D} \\ &\quad (0.11) \quad \quad \quad (-2.40)^* \quad \quad (-1.70) \end{aligned}$$

$$\begin{aligned} R^2 &= 0.44 \\ F &= 2.63^* \end{aligned}$$

Two regressions were done in the case of travel receipts using weighted values of total GDP and per capita GDP of major tourist arrival countries. (In calculating the weighted average, tourist arrivals from India was not considered since most of these travel are not for recreation purposes. Arrivals from India accounted for about an average of 13 per cent of total arrivals for this period). All coefficients have the expected signs. However, only the coefficient for exchange rate index is significant at 5 per cent level. The insignificance of the GDP variable may be due to the fact that much of the increase in tourist arrivals in Sri Lanka was dependent on the developments which took place in the tourist industry such as the establishment of new hotels, promotion activities abroad, establishment of the Air Lanka National air line etc. The dummy variable showed that the internal conflicts have had a considerable effect on the tourist earning for Sri Lanka. (These coefficients are significant at 1 per cent).

$$\begin{aligned} \text{TD} &= -1.70 - 0.0618\text{PGDP} + 23.2834\text{EXRS} \\ &\quad (-1.61) \quad \quad (9.56)^* \end{aligned}$$

$$\begin{aligned} R^2 &= 0.96 \\ F &= 165.16^* \end{aligned}$$

The functional relationship does not provide a meaningful interpretation of payments on account of travel by Sri Lankans. This could be due to the increase in travel abroad by Sri Lankans consequent to the relaxation of restrictions on outward remittances of foreign currency. These restrictions have been progressively relaxed since liberalization in 1977 and the foreign currency permitted with respect to studies, holiday, business, medical, etc. have increased vastly over the past fifteen years. These developments resulted in increased foreign travel by Sri Lankans during the post independent period.

4. Other Private Services

$$\text{OPC} = 29.94 + 0.0650\text{GDP} - 0.8356\text{PGDP} \\ (1.69) \quad (-1.09)$$

$$\begin{aligned} R^2 &= 0.74 \\ F &= 16.16^* \end{aligned}$$

Receipts with respect to other private services showed a positive response to GDP while showing a negative response to per capita GDP. When regressed against GDP only the coefficient was significant and the reduction in R^2 was only three per cent.

$$\text{OPC} = -27.39 + 0.0023\text{GDP} \\ (5.63)^*$$

$$\begin{aligned} R^2 &= 0.71 \\ F &= 31.66^* \end{aligned}$$

Hence, this function would be considered adequate in explaining the development in receipts with respect to other private services.

Similar observations are made in the case of payments regarding other private services as illustrated by the functions given below.

$$\text{OPD} = -11.60 + 0.0430\text{GDP} - 0.3545\text{PGDP} \\ (0.99) \quad (-0.41)$$

$$\begin{aligned} R^2 &= 0.72 \\ F &= 15.23^* \end{aligned}$$

$$\text{OPD} = -35.74 + 0.0253\text{GDP} \\ (5.69)^*$$

$$\begin{aligned} R^2 &= 0.71 \\ F &= 32.36^* \end{aligned}$$

In this case R^2 is reduced only by one per cent.

These results indicated that the above models are able to quantify the determinants of comparative advantage to a certain extent but may not be suitable for some categories.

III. Identification of Current Issue and Problems in Trade in Services

The balance of non factor services of Sri Lanka has shown a surplus for the period under consideration, mainly due to the surplus recorded in the travel account. Freight and merchandise insurance has shown a surplus balance in recent years while other transportation has shown a deficit. Government services and other private services do not show a clear pattern.

3.1 Developments in the Tourist Industry

Travel receipts have been mainly through the tourist industry. Sri Lanka has realized its potential as a tourist resort and has taken many steps towards improving the industry.

This industry has experienced a steady growth since the late sixties up to the mid 1980s. The ethnic violence which erupted in 1983 put a halt to the upward trend. The receipts from tourism began to decline continuously until 1990, the income received then almost doubled. This was mainly due to the improvements in the security situation in the country. Receipts from travel as a proportion of receipts from non-factor services declined from over 40 per cent during the early 1980s to below 20 per cent in 1985. But with the improvements in the country's security situation this has gone up to about 31 per cent in 1990.

Tourist arrivals increased from 118,971 in 1976 to reach a peak in 1982 reaching 407,230. Total receipts from the travel account rose from US\$23.4 million to US\$128.7 million in 1982 (Table 8.5). Then it started to decline and recorded US \$76.5 million in 1989. However, in 1990 it showed an increase of over 80 per cent compared to the previous year of earnings amounting to US\$139.7 million. The average earning per tourist per day which was about US\$24.5 in 1976 has increased to about US\$39 at present. Accommodation capacity has also increased from 4581 rooms in 1976 to 9556 rooms in 1990. Apart from being the major surplus item of non-factor services, tourism has also contributed in generating employment. It stood at 64,262 employees with 26,776 involved directly and 37,489 involved indirectly in the tourist industry in 1982. This figure began to decline due to the internal problems that occurred in the country until 1988 after which it started rising again. At present, it is estimated that about 60,000 people are employed in this industry.

The factors mentioned earlier indicated the sensitivity of the tourist industry to exogenous factors such as the security conditions of a country. Hence, it is important that if tourism is to continue as a major non-factor service earner the country should maintain an environment which is conducive for tourist arrivals.

3.2 Developments in Investment Income

It would be worthy to note the recent developments in the investment income category of the services account. Payments have risen considerably from US\$89.9 million in 1979 to US\$373.2 million in 1990. This was mainly due to interest payments on foreign loans obtained by the government for investment purposes. Payments have been large to the extent that the total services account including both non-factor and factor services have been negative since 1982 and the deficit has been widening over the years with 1990 being an exception (Table 8.7). This indicated the inability of the non-factor services sector to compensate for the deficit in factor services. However, this could be considered a temporary issue because the outstanding commitments are expected to reduce over the years so that the total services balance should turn out to be favourable for Sri Lanka.

3.3 Market access in Trade in Services

Market access is an important aspect in developing services industries. The existence of a competitive environment is thought to be healthy for any industry to develop. However, regulations set by government concerning national security, financial stability, protection of the local industries, would also affect trade in services, all of which would limit foreign participation. Some countries may restrict foreign banks operating in their countries or restrict the type of business they can conduct even if they are permitted to operate. Insurance companies may not offer certain policies unless the government decides that these insurance companies can provide these services. There is also restriction on accounting firms to perform audits unless they are affiliated to a local firm. Foreign professionals may be required to register with a local body before extending their services.

With the liberalization policies adopted since 1977, there has been a lot of foreign participation in various sectors in the country's economy. There has been foreign participation in the banking, shipping and air transport, and tourism trade, with branches and agencies of foreign concerns being opened up in Sri Lanka. Although there has been much scope for foreigners to invest, whether the investment will be in the services sector will depend on the other alternatives available for them. For instance with the shift towards export oriented policies the government established the Greater Colombo Economic Commission (GCEC) in 1978. Under this scheme foreign investors can invest in export oriented projects approved by the GCEC and these are exempted from all exchange control regulations. However, they are not permitted to produce for the domestic market. In the case of services, a clear distinction between the domestic and foreign markets cannot be drawn. Hence, they will be subjected to the exchange control regulations which are in operation. However, with the continuing liberalization of exchange control there is the possibility of more foreign investment coming into the country and some may be in the services sector.

3.4 Data Constraints in Trade in Services

A major constraint in compiling the services account is the collection of data. Since by nature, the services sector is heterogenous, the sources of data are numerous and one does not have the capability of obtaining data from all possible sources. However, since

Table 8.7

TRADE IN SERVICES (NET)

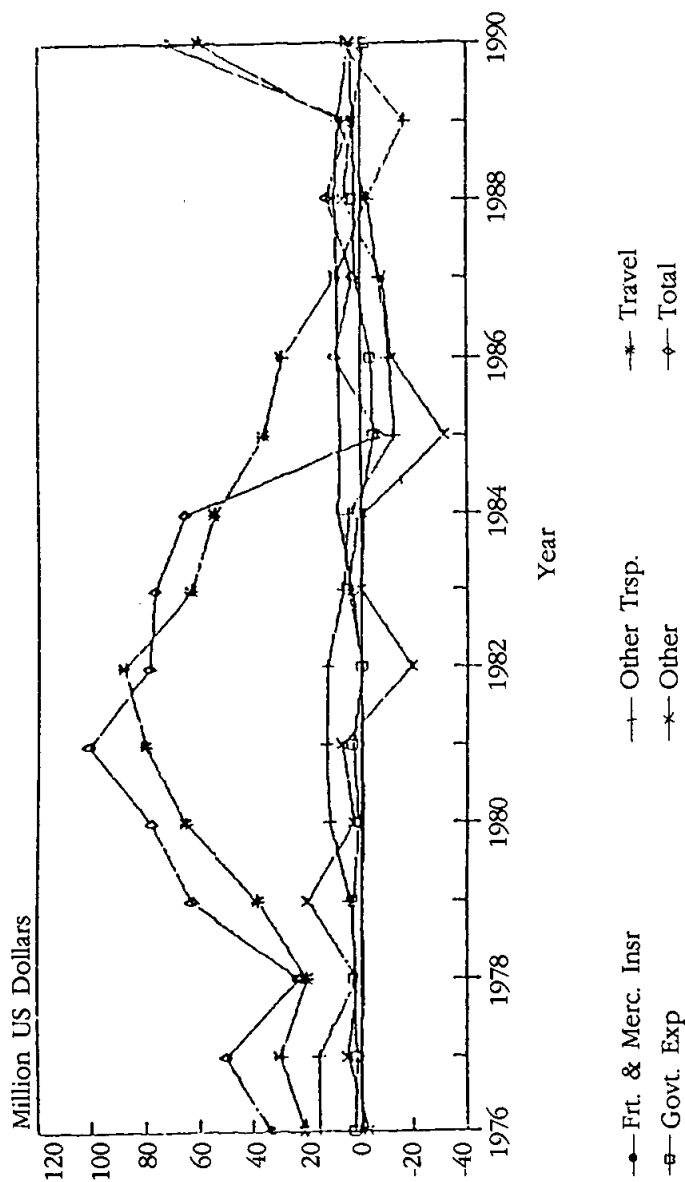
(Million US Dollars)

Sector	1976	1977	1978	1979	1980	1981	1982	1983	1984	1985	1986	1987	1988	1989	1990
1. Freight & Merchandise Insurance	-0.8	-0.8	-1.3	-1.1	-1.3	-0.9	-0.5	2.8	8.4	7.3	8.4	8.3	9.5	7.8	4.2
2. Other Transportation	15.1	15.3	1.3	3.7	11.2	12.6	12.1	6.4	3.9	-13.0	-11.4	-7.4	-3.0	-16.8	6.6
2.1 Passenger Fares	0.7	0.2	-6.3	-9.0	-9.8	-11.3	-11.3	-6.9	-1.4	-7.3	-4.8	-9.8	-5.3	-3.0	37.4
2.2 Port Expenditure	14.1	14.9	10.3	15.3	23.6	27.1	28.8	27.3	20.8	23.0	28.9	34.7	36.8	31.7	19.4
2.3 Other	0.3	0.2	-2.7	-2.5	-2.6	-3.1	-5.4	-1.4	-15.5	-28.6	-35.5	-32.3	-34.5	-45.5	-50.1
3. Travel	20.6	29.6	19.6	38.2	65.4	80.1	88.2	63.2	54.4	35.9	28.8	8.8	-2.7	7.7	60.3
4. Government Expenditure	1.7	1.2	2.1	2.5	0.3	2.6	-1.1	4.6	0.4	-5.6	-4.5	1.5	2.1	2.1	-2.0
5. Other Services	-3.2	4.5	1.0	19.5	2.4	6.9	-19.8	-0.5	-1.6	-32.1	-12.3	-8.6	6.2	2.7	3.3
5.1 Non-merchandise Instr.	-0.8	-1.4	-1.4	0.4	-0.6	-0.5	-3.2	-0.8	-1.9	-4.8	1.2	-9.2	-6.3	-4.7	6.1
5.2 Other	-2.4	5.9	2.4	19.1	2.9	7.4	-16.6	0.3	0.3	-27.2	-13.5	0.6	12.5	7.3	-2.8
Total non-factor services	33.3	49.9	22.8	62.9	78.0	101.4	79.0	76.6	65.5	-7.4	9.1	2.5	12.0	3.5	72.4
Investment Income	-20.1	-16.7	-15.2	-15.4	-26.1	-97.1	-94.1	-136.6	-133.7	-126.8	-138.2	-159.6	-165.6	-159.2	-148.3
TOTAL SERVICES PAYMENTS	13.2	33.2	7.6	47.6	51.9	4.3	-15.1	-60.0	-68.2	-134.3	-129.1	-157.1	-155.5	-155.7	-75.9

Source: Central Bank of Sri Lanka.

Chart 8.5

NON-FACTOR SERVICES NET



international transactions are involved and these go through the commercial banks, it is reasonable to obtain relative data from these sources. This system of data collection can be adopted until such time, as and when there are requirements that all transactions be notified to the relevant authorities.

At present Sri Lanka uses this method of data collection in compiling the services account. However this has its own problems, mainly in identifying the purpose against which the payment or receipt is made. With the developments in communication, transactions among banks are done through computers and very little is put on paper (Ex. telegraphic transfers). Another possibility is that services provided domestically to a foreign concern may be paid in domestic currency. We cannot also ignore the fact that there is the possibility of illegal transactions in view of the strict exchange control regulations.

With liberalization in payments procedures, exchange control regulations become obsolete, and consequently, exchange control records as a source of data. Reliance on survey data may be more appropriate in a situation of this nature. This too has its limitations, especially in respect of coverage and frequency.

IV. Policy Measures Undertaken to Deal with the Problems Arising Out of Trade in Services

With the liberalised economic policies adopted in 1977, Sri Lanka, which has a state controlled economy moved towards a free and open market economy. These policies were aimed mainly at liberalization of merchandise trade and promoting foreign investment. However, although there were no direct policies with regard to trade in services, the consequence of the other policies affected the services sector. As mentioned earlier, the developments in the banking sector, operation of agents of foreign shipping and air lines, foreign travel agents, etc.

Considering the balance of payments, it is the visible trade account that has caused deficits in the current account. The services account has been in surplus most of the time. However, when taken together with factor services it showed a deficit after 1982, because of the interest charges arising from the capital account, where large scale borrowing by the government has been experienced since 1977 for purposes of

investment. Most of these have been under concessional terms and do not adversely affect the balance of payments. With the total outstanding debt reducing over the years the position of the investment income account is expected to improve in the future.

As mentioned earlier it is the travel account that contributes most to trade in services. Since this depends mainly on the tourist industry, policies introduced to upgrade the tourist industry can be considered as those that have had an effect on the services account. Promotion of tourism was initiated at a very early stage, when the Tourist Board was established as far back as 1966, with the enactment of the Tourist Board Act.

The objectives of the act were mainly the encouragement, promotion and the development of the travel trade, and tourist services, which would be adequate, efficient and attractive to foreigners. Subsequent to this, a tourism development plan was drawn up which was aimed at achieving broader objectives such as:

- (1) Providing optimum growth of international travel and tourism to and within Sri Lanka;
- (2) Developing a tourist industry plan that would best utilize the resources available for tourism;
- (3) Developing promotional programs which will provide the greatest sustained economic benefits; and,
- (4) Assisting the economic development process by creation of new employment and earning of foreign currency.

The tourist industry was initially a success in Sri Lanka in terms of net foreign exchange earnings and tourist arrivals. This position changed with the eruption of ethnic violences in 1983. However, things have changed in favour of the tourist industry in the last couple of years with considerable improvement and it is hoped that this industry will not suffer further setbacks in the future.

The development of the port services has also received much prominence with the liberalization in 1977. The establishment of the Sri Lanka Ports Authority in 1979 was a significant step taken towards

developing the port services. The main objectives in setting up the Ports Authority were:

- (1) Provision of efficient and regular services for stevedoring, shipping, and transshipping, landing and warehousing, wharfage;
- (2) Supply of water, fuel and electricity to vessels;
- (3) Handling petroleum products and lubricating oil to and from vessels and between bunkers and depots;
- (4) Providing facilities for under water ship repairs;
- (5) Provision of efficient and regular tally and protective services;
- (6) Regulation and control of navigation; and,
- (7) Maintenance of port installations to obtain optimum use.

The development of the Port of Colombo has made it one of the major transshipment ports in the region. Transshipment traffic has increased progressively with the expansion of port facilities. The tonnage of transshipment cargo increased from 150,000 tons in 1981 to 5,211,690 tons in 1988, and as indicated earlier over 75 per cent of the containers handled in the port is transshipment cargo.

The more recent developments in favour of the services sector can be the emphasis place on making Sri Lanka a financial center in the region. The permitting of foreign banks to establish branches and operate Foreign Currency Banking Units (FCBUs) could be seen as a fore runner to achieving this. Recently commercial banks were permitted to open numbered accounts in foreign currency on behalf of non-residents and foreigners. Permitting money changers to exchange foreign currency to any other foreign currency could also be looked upon as creating a favourable environment for financial activities. The delegation of exchange control functions to commercial banks can also be considered as a step in this direction. When considering the services sector as a whole, including domestic services, it is observed that the financial services sector has shown the highest annual average growth rate of 15.6 per cent for the period of 1976 to 1990. This could be attributed to the open market policies adopted since 1977.

The developments in the Colombo Stock Exchange (CSE) could also be considered as a move towards making Colombo a financial center. Since June 1990 foreigners and approved Regional Funds were allowed to invest in up to 40 per cent of shares of the issued capital in Sri Lankan companies. There has been a significant foreign participation at the CSE following this and this would mean that these investors will be depending on the services sector for their needs, specially in areas of banking and stock brokering, which in turn have a positive effect on the services account.

V. Conclusion

The services sector plays an important role in the Sri Lankan economy in terms of income generation as well as employment generation. In the context of balance of payments, trade in services does not contribute much to the foreign exchange transactions when compared to the merchandise account. As far as the non-factor services account is concerned, it is the travel account that causes considerable effect on its net position. The non-factor services has been in surplus during the period of 1976 to 1990, but it has not been adequate to cover up for the deficits in the merchandise account. With respect to comparative advantage it is expected that developed countries will have an edge over developing countries, mainly because of the abundance in physical and human capital in those countries.

Sri Lanka has taken positive steps towards developing the services sector in the past years with much emphasis placed on the tourist industry. The more recent development in the services sector, which have resulted from the liberalization measures undertaken by the government, have been aimed at attracting more foreign investments into Sri Lanka.

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GROSS DOMESTIC PRODUCT
(At Current Prices)

(Million US Dollars)

SECTOR	1976	1977	1978	1979	1980	1981	1982	1983	1984	1985	1986	1987	1988	1989	1990	Average
GDP																
Growth Rate	3,515.8	3,780.4	2,593.5	3,197.5	3,764.6	4,120.6	4,549.2	4,840.0	5,491.0	5,460.5	5,854.0	6,070.0	6,398.5	6,328.9	7,251.0	
		14.28%	-31.50%	23.29%	17.74%	9.46%	10.40%	6.39%	13.43%	-0.55%	7.21%	3.69%	5.41%	-1.09 %	14.57%	6.62%
AGRICULTURE																
Growth Rate	962.0	1,162.9	790.1	861.5	1,037.3	1,142.2	1,199.5	1,367.7	1,577.9	1,512.0	1,583.1	1,627.6	1,685.2	1,621.8	1,909.6	
% of GDP	29.01%	30.69%	30.47%	26.94%	27.57%	27.72%	26.37%	28.26%	28.74%	27.69%	27.04%	26.81%	26.34 %	25.63%	26.34%	5.97%
MANUFACTURING																
Growth Rate	664.8	876.5	518.6	609.2	668.2	669.6	654.5	678.2	821.2	804.4	887.6	966.9	984.0	969.3	1,076.5	
% of GDP	20.05%	23.13%	20.00%	19.05%	17.75%	16.25%	14.37%	14.01%	14.96%	-2.05%	10.35%	8.93%	1.77%	-1.49%	11.06%	4.96%
SERVICES																
Utility Services	106.1	112.1	77.4	108.6	124.5	133.9	208.5	217.8	219.8	228.4	254.5	246.2	243.4	239.6	269.3	
Commercial Services	915.8	979.1	674.7	910.7	979.2	1,117.7	1,458.7	1,458.4	1,678.2	1,686.7	1,774.6	1,840.2	1,967.1	1,934.5	2,258.1	
Financial Services	49.6	59.2	54.1	79.8	108.0	128.0	178.5	177.8	171.8	209.6	244.1	253.2	283.0	291.2	330.1	
Public Administration	112.1	128.6	97.1	106.9	118.8	122.1	139.3	174.3	209.2	234.7	283.6	288.7	347.4	377.3	395.4	
Other Services (n.e.s.)	292.2	282.1	208.7	253.3	317.3	367.4	221.2	230.1	249.4	233.7	240.1	237.8	243.6	248.4	297.1	
TOTAL SERVICES																
Growth Rate	1,475.8	1,561.1	1,112	1,439.4	1,647.8	1,869.1	2,206.2	2,258.3	2,528.4	2,593.1	2,796.9	2,866.1	3,084.5	3,091	3,550	
% of GDP	44.51%	5.79%	-28.77%	31.24%	12.91%	13.43%	18.04%	2.36%	11.96%	2.56%	7.86%	2.47%	7.62%	0.21%	14.85%	7.42%
		41.20%	42.88%	45.64%	43.77%	45.36%	48.50%	46.66%	46.05%	47.49%	47.78%	47.22%	48.21%	48.84%	48.96%	46.20%
OTHER																
Growth Rate	213.3	188.8	172.8	267.5	411.3	439.7	489.9	535.8	563.4	551.1	586.3	609.5	644.8	646.7	714.9	
% of GDP	6.43%	-11.48%	-8.47 %	51.82%	53.76%	6.89%	11.44%	9.35%	5.17%	-2.20%	6.40%	3.96%	5.87%	0.29%	10.51%	10.45%
MINING & QUARRYING	75.6	65.0	46.9	60.8	75.5	75.8	107.5	119.0	123.90	122.5	148.3	167.3	175.0	165.9	177.2	
CONSTRUCTION	137.7	123.8	125.9	206.7	335.8	363.9	382.4	416.8	439.5	428.5	438.0	442.2	469.8	480.8	537.7	
PER CAPITA GDP	241.7	271.8	482.8	221.0	255.2	274.5	299.3	313.9	352	344.7	363.2	371.0	385.7	376.5	426.8	312.0

GROSS DOMESTIC PRODUCT (At Constant Prices) */

(Million US Dollars)

SECTOR	1976	1977	1978	1979	1980	1981	1982	1983	1984	1985	1986	1987	1988	1989	1990	Average
GDP	2,589.0	2,698.6	2,920.6	3,105.2	3,335.9	3,391.4	3,651.6	3,898.6	4,026.6	4,196.3	4,373.1	4,457.2	4,568.6	4,689.9	4,993.4	
Growth Rate	4.23%	8.23%	6.32%	6.32%	7.43%	1.67%	7.67%	5.12%	4.90%	4.21%	4.21%	1.92%	2.50%	2.63%	6.47%	4.82%
AGRICULTURE	633.6	721.6	760.7	775.8	799.9	855.5	878.0	921.9	918.4	997.6	1023.7	971.0	984.2	973.0	1,058.6	
Growth Rate	10.40%	5.42%	1.99%	1.99%	3.12%	6.95%	2.63%	5.00%	-0.38%	8.63%	2.61%	-5.14%	1.36%	-1.14%	8.80%	3.59%
% of GDP	25.24%	26.74%	26.04%	24.98%	23.98%	25.23%	24.04%	24.02%	22.81%	23.77%	23.41%	21.79%	21.54%	20.75%	21.20%	23.70%
MANUFACTURING	398.0	395.6	426.5	446.3	500.3	473.3	496.0	499.9	561.2	590.5	640.3	683.7	715.5	747.1	817.8	
Growth Rate	-0.59 %	7.81%	4.60%	12.11%	12.11%	-5.40%	4.79%	0.80%	12.25%	5.22%	8.43%	6.78%	4.66%	4.41%	9.46%	5.38%
% of GDP	15.37 %	14.66%	14.60%	14.37%	15.00%	13.96%	13.58%	13.02%	13.94%	14.07%	14.64%	15.34%	15.66%	15.93%	16.38%	14.70%
SERVICES																
Utility Services	98.9	101.7	110.3	118.8	127.2	136.5	145.7	150.6	155.8	160.3	166	169.4	173.2	175.6	183.5	
Commercial Services	730.6	754.8	816.1	884.0	954.5	1,005.5	1,066.5	1,124.5	1,209.4	1,259.1	1,305.4	1,355.2	1,362.2	1,386.5	1,436.7	
Financial Services	40.3	49.5	53.4	58.7	67.5	77.5	86.8	96.5	105.7	116.2	120.9	128.2	135.9	144.1	153.1	
Public Administration	127.6	132.8	143.3	151.9	161	167.3	185	241.6	265.7	282.8	336.5	346.8	348.5	391.7	405.5	
Other Services (n.e.s.)	329.3	352.3	371.3	399.1	431.7	382.5	498.2	497.6	502.6	479.1	459.9	471.6	479.5	491.1	535.6	
TOTAL SERVICES	1326.6	1391.1	1496.3	1612.6	1741.9	1769.4	1983	2110.8	2239.2	2297.5	2388.7	2451.2	2499.3	2588.9	2714.3	
Growth Rate	4.86%	7.57%	7.77%	8.01%	8.01%	1.38%	12.08%	6.44%	6.08%	2.69%	3.97%	2.62%	1.96%	3.58%	4.85%	5.28%
% of GDP	51.24%	51.55%	51.23%	51.93%	52.22%	52.17%	54.31%	54.99%	55.61%	54.75%	54.62%	55.00%	54.71%	55.20%	54.36%	53.54%
OTHER	210.8	190.3	237.2	270.6	293.7	293.2	294.6	306	307.8	310.7	320.5	351.3	369.5	380.9	402.6	
Growth Rate	-9.71%	24.00%	14.08%	8.56%	-0.17%	-0.17%	0.46%	3.89%	0.59%	0.95%	3.14%	9.61%	5.20%	3.07%	5.70%	5.00%
% of GDP	8.14%	7.05%	8.12%	8.07%	8.81%	8.65%	8.07%	7.97%	7.64%	7.40%	7.33%	7.88%	8.09%	8.12%	8.06%	8.00%
MINING & QUARRYING	95.8	86.4	103.9	109.4	114.8	119.7	124.5	134.3	136.30	138.3	145.5	173.2	188.8	199.0	217.1	
CONSTRUCTION	115	103.9	133.3	161.1	178.9	173.5	170	171.7	171.5	172.4	175.0	178.1	180.8	181.9	185.5	
PER CAPITA GDP	188.7	193.6	205.8	214.6	226.2	225.9	240.2	248.9	258.1	264.9	271.3	272.4	275.4	279.0	293.9	238.7

*/ Base year 1970.

The annual average Sri Lanka/US \$ rates have been used in converting current rupee values into US dollars.

The 1970 Sri Lanka Rupee/US \$ rate has been used in converting the 1970 constant rupee values into US dollars.

EXPORTS AND IMPORTS

(1976-1990)

(Million US Dollars)

SECTOR	1976	1977	1978	1979	1980	1981	1982	1983	1984	1985	1986	1987	1988	1989	1990
1. Merchandise Trade															
Exports	556.8	725.4	846.2	981.6	1064.6	1065.8	1013.7	1064.2	1462.3	1315.3	1209.7	1395.7	1477.2	1558.4	1983.9
Imports	640.8	687.2	999.5	1449.7	2051.2	1877.5	1994.1	1921.3	1928.1	2044.3	1973.2	2075.1	2240.2	2225.6	2685.9
Net	-84.0	38.2	-153.3	-468.1	-986.5	-811.6	-980.3	-857.2	-465.8	-729.0	-763.5	-679.4	-763.0	-667.2	-702.0
2. Non-factor services															
Receipts	72.1	89.6	104.3	152.8	231.7	279.9	290.7	296.5	278.6	245.4	310.8	328.3	342.7	346.5	445.6
Payments	38.8	39.7	81.5	89.9	153.7	178.5	211.6	219.9	213.1	252.8	301.7	325.8	330.7	343.0	373.2
Net	33.3	49.9	22.8	62.9	78.0	101.4	79.0	76.6	65.5	-7.4	9.1	2.5	12.0	3.5	72.4
3. Factor services															
Receipts	3.9	11.3	20.1	39.5	46.8	33.0	43.8	44.9	58.1	83.2	67.6	69.8	69.1	58.4	96.8
Payments	24.0	28.0	35.3	54.9	72.9	130.0	137.9	181.5	191.8	210.1	205.7	229.4	234.6	217.6	245.1
Net	-20.1	-16.7	-15.2	-15.4	-26.1	-97.1	-94.1	-136.6	-133.7	-126.8	-138.2	-159.6	-165.6	-159.2	-148.3
4. Total services Exports (2+3)	76.0	100.8	124.4	192.3	278.5	312.8	334.5	341.4	336.8	328.6	378.4	398.1	411.8	404.9	542.4
Total services Imports (2+3)	62.8	67.7	116.8	144.7	226.6	308.5	349.6	401.4	405.0	462.9	507.5	555.1	565.3	560.6	618.3
Total services net (2+3)	13.2	33.2	7.6	47.6	51.9	4.3	-15.1	-60.0	-68.2	-134.3	-129.1	-157.1	-153.5	-155.7	-75.9
5. Total Exports															
Total Imports	628.9	815.0	950.5	1134.3	1296.3	1345.7	1304.4	1360.6	1740.9	1560.7	1520.5	1724.0	1819.9	1904.9	2429.5
Balance	679.5	726.9	1081.0	1539.5	2204.9	2056.0	2205.7	2141.2	2141.3	2297.1	2274.9	2400.9	2570.9	2568.5	3059.1
(Goods and Non-Fac. Services)	-50.7	88.1	-130.5	-405.2	-908.5	-710.3	-901.3	-780.6	-400.3	-736.4	-754.4	-676.9	-751.0	-663.6	-629.6
6. Total Goods and services															
Receipts	632.8	826.3	970.6	1173.8	1343.1	1378.7	1348.2	1405.5	1799.1	1643.9	1588.1	1793.8	1889.0	1963.3	2526.3
Payments	703.5	754.9	1116.3	1594.4	2277.8	2186.0	2343.6	2322.7	2333.1	2507.2	2480.6	2630.3	2805.5	2786.2	3304.2
Balance	-70.8	71.4	-145.7	-420.6	-934.6	-807.4	-995.4	-917.2	-534.0	-863.3	-892.6	-836.5	-916.5	-822.9	-777.9
(1+4)															

Chapter 9

TRADE IN SERVICES IN THAILAND

by

Sukanya Tovivich

Chantavarn Sucharitakul

I. Overview of Development of Trade in Services in Thailand

1.1 Concepts and Definitions

In a national accounting framework or an industry-of-origin classification of national product, services are conventionally defined as activities which are not agriculture, mining or manufacturing. The services sector, as commonly understood, thus includes retailing and wholesaling, transport, communication and storage, finance, real estate and business services, entertainment and personal services, as well as public administration, defense and community services.

To simplify data collection and calculation, as well as for the purpose of facilitating cross-country comparison, the IMF definition is used here which includes only non-factor service transactions between residents and non-residents. This implies that other aspects of trade in services, such as factor income from investment income, transfers from incomes earned from abroad and other services will not be included. Non-factor services can be defined as invisibles minus the investment income component of services minus unrequited transfers. Although this is convenient for comparison it would leave out a significant part of the discussion on trade in services (not just international trade in services), which is an integral part of the negotiations in the Uruguay Round. However, even if one were to venture to study the economic trend in trade in services in its entirety, this would pose a formidable task in terms of data collection. This is because according to the definition of the GATTS, trade in services does include trade in any services, except those supplied by the Government and thus include trade between non-resident producers and resident consumers (banking, insurance and brokerage) or non-resident consumers and resident producers (tourism or the purchase of medical services overseas).

Trade in non-factor services in Thailand is classified according to the definition and coverage prescribed in the Balance of Payments Manual

of the International Monetary Fund (IMF) which are categorized as follows:

1.1.1 Freight and Insurance

The receipts cover freight on exports that are transported by Thai carriers and insured with Thai insurance companies. The payments cover freight and insurance on imports that are carried by non-resident carriers and insured with foreign companies. In practice, freight payments and insurance premium presented in the Balance of Payments Tables cover only outward remittances operating in Thailand but not freight and insurance paid on imports. As merchandise are usually exported on f.o.b. prices but are imported on c.i.f. basis, freight and insurance due to Thailand's imports are reported in the Balance of Payments as a portion of c.i.f. import value. However, for the study of trade in services, freight payments on imports are estimated at 9 per cent of the c.i.f. import value and insurance premium payments are estimated at 1 per cent. This estimations are consistent with the International Monetary Fund practice.

1.1.2 Other Transportation

The receipts cover mainly passenger fares received by Thai carriers from non-Thai residents; port service paid by foreign carriers in Thailand and bunker oil sold to foreign carriers. The payments are vice versa.

1.1.3 Tourism

The receipts cover expenditure of international tourists including foreign businessmen in Thailand, provided that their lengths of stay in Thailand are more than one night but less than 50 days. The payments cover expenditure of Thai travellers, businessmen as well as students staying abroad provided that foreign exchange are required.

1.1.4 Government, n.i.e.

The receipts are mainly expenditures of foreign embassies and (in the past) foreign military bases in Thailand excluding those of their employees and also the acquisition of their real estates in Thailand. For the payments, they are vice versa.

1.1.5 Others

Include other traded services that could not be classified under the abovementioned categories and factor-services.

1.2 The Role of Trade in Services in Thailand and its Contribution to Domestic Economy

During 1975-1990, the Thai economy expanded at a high average rate of 12 per cent in nominal terms. Traded services at the same period grew at a higher average rate of 18 per cent, while the receipts and payments stood at 19 and 18 per cent, respectively. Shares of traded service to GDP have never been lower than 7 per cent for the whole study period with an accelerated average share of 15 per cent during 1986-1990 compared to 9 per cent during 1976-1985. Since no data on Thailand's traded services in real terms are available, it is not possible to compare the gain in real terms between GDP and traded services. However, after deflating by the domestic CPI, the average rate of growth in service receipts during 1976-1990 came to a lower figure of around 13 per cent while those for payments, after deflating by CPI of industrial countries, came to 10 per cent; compared with the average 6 per cent real GDP growth during the corresponding period.

In terms of relative importance to the external-trade sector, average traded service receipts accounted for 23 per cent of exports of goods and services during the period under observation. During 1976-1980, the share was 17 per cent and then surged to 25 per cent during the last ten years. On the payments side, service imports showed a steady 16 per cent share to imports of goods and services for the whole period of the study.

Compared to trade in merchandise, the proportion of trade in non-factor service accounted for more than 20 per cent of the total traded merchandise during the whole period of the study. The average share of service receipts and payments were 14 per cent and 12 per cent, respectively. With regard to exported and imported merchandise, the share of service receipts and service payments were 31 per cent and 21 per cent, respectively.

On a net basis, the deficits of around US\$ 100 million per annum in non-factor services during 1976-1980 changed to a surplus of around

US\$1,000 million annual average in the following 10 years. Especially in the last 5 years, the surplus increased to around US\$1,500 million per annum.

The continued surplus in the last 11 years has offset the increasing deficit in merchandise balance and also in factor services. The share of non-factor services to GDP changed from the deficit of 1 per cent of GDP during 1976-1980 to a surplus of 2.6 per cent to GDP during 1986-1990.

Despite the sharp increase in surplus of non-factor services during the period reviewed, Thailand experienced persistent unfavourable balance in the service account due to the deficits in the factor services every year. The deficit in factor services grew from around US\$300 million per annum during 1976-1980 to US\$1,600 million in the last 5 years. The only two exceptional years were in 1988 and 1989 where the service account gained around US\$200 million as the travel receipts recorded more than US\$3.0 billion in those years. This was the results of the Visit Thailand Year in 1987.

With the huge deficit in traded merchandise and unfavourable result in the service account, the current account deficit grew from US\$450 million in 1976 to US\$7,100 million in 1990 with the exception of 1986 when the current account recorded a surplus of US\$300 million, the first time in 20 years. The share of current account deficit to GDP varied from 0.6 per cent to 8.7 per cent during the observation period (1975-1990).

However, Thailand gained a huge surplus in the capital account which more than offset the large amount of deficit in the current account. As a result, the country has been enjoying a large balance of payments surplus during the past 7 years. International reserves accumulated to US\$14,272 million, equivalent to 5.3 months of imports in 1990.

1.3 The Trend of Main Components of the Service Account

1.3.1 Services Receipts

Receipts from tourism have become increasingly important in Thailand's service receipts. The share of receipts from tourism accounted

for 36 per cent of total service receipts during 1976-1985, and to almost 50 per cent during 1986-1990. This was due to the high average expansion of 24 per cent per annum of income from tourism during 1976-1990.

Consistent with the tourist revenue, the receipts from other transportation increased sharply during 1986-1990, and recorded an average amount of almost US\$500 million, an 8 per cent share of total service receipts.

Freight and insurance rose from US\$100 million per year during 1976-1980 to around US\$400 million in the past 5 years with the average share during the whole period of around 10 per cent.

For government n.i.e., the share decreased gradually from 8 per cent in the first 5 year-period, to only 2 per cent in the last period.

1.3.2 Services Payments

Freight and insurance, most of which were paid on Thailand's commodity imports, accounted for almost 40 per cent of all the services paid to the rest of the world, with a high growth rate of over 20 per cent during 1976-1980, and subsequently dropped to only 2 per cent per annum in 1981-1985, but increased to 30 per cent during 1986-1990. This was consistent with the growth of merchandise imports.

Expenditure on travelling abroad by Thai residents expanded at an average of 20 per cent per annum, and accounted for around 10 per cent of Thailand's total service payments. During 1986-1990, Thai residents' travelling expenditure rose sharply with an average growth rate of 40 per cent per annum in tandem with the high GDP growth rates.

On a net basis, deficit on freight and insurance increased by around 10 times during the last 15 years, from US\$300 million in 1976 to US\$3,100 million in 1990. In contrast, the surplus on travel increased from US\$200 million per annum during 1976-1980 to almost US\$800 million during 1981-1985, and up to more than US\$2,200 million in the last 5 years.

1.4 Determinants of Comparative Advantage in Trade in Services

The question of whether it is possible for a country to have comparative advantage in services are often raised. Indeed, the relevance of the concept of comparative advantage in the services sector taken as a whole may not be very meaningful. A country might have advantage in some services but the method of exploiting that advantage has not been fully achieved. One case in point is the Thai shipping services. Although Thailand is well endowed with a long coastal line, which imply that Thailand should have a natural comparative advantage in shipping and maritime services, in actual fact, the Thai shipping services has not been the major strength of the country. This is due largely to the poor infrastructural development and the lack of interest to fully exploit this natural advantage. Furthermore, comparative advantage is not a static concept, and the distribution of that advantage among countries is likely to change over time in response to natural economic forces, as well as government policy.

For instance, in tourism services, the comparative advantage which Thailand possess falls into what is called a "Ricardo service"; that is, a service whose comparative advantage is largely determined by natural endowments. These natural endowments can be improved upon or marketed, but are not easily acquired compared to comparative advantage in capital or technology intensive. At the same time, comparative advantage from natural endowments are likely to be more prone to economic slumps and booms, and are generally not easily adaptable to change, unlike capital which can be converted to other complementary or substitutable service. It can be expected, for instance, that when Indochina opens up to the world, these newly emerging markets will quickly pick up as an attractive tourist destination, taking, in part, some of the incomes which Thailand now enjoys.

In an increasingly globalized world trading environment, the main factors shaping comparative advantage in services trade are the availability of physical and human capital. For developing countries, such factors are still not widespread. Nevertheless, an attempt to analyse the determinants of comparative advantage in certain major services will be made.

1.4.1 Freight

In general, this category is usually grouped together with insurance under the heading of "freight and insurance". However, insurance receipts or payments associated with international trade transaction appeared to be insignificant compared to that of freight. Thus, in the interest of simplicity, Thailand's receipts from and payments on insurances are included in this analysis as one category.

a. Freight Receipts (FRC)

Receipts on freight probably arose from two different sources; first, when Thai carriers are used in the transportation of Thai exports; and secondly, when any third countries employed Thai carriers in their international transactions. Therefore, on the receipts side, two explanatory variables are assumed to be the determinants of receipts on freight, namely value of Thai exports (EX) and the number of Thai carriers registered for outward transaction (FLENO). Both variables have positive (+) expected signs. However, the regression result indicated that the receipts on freight do not depend on the number of Thai carriers. This implied that the role of Thai carriers in delivering Thai exports is insignificant. Thus the regression equation of freight receipts can be written as:

$$\ln FRC = 1.105 + 0.512 \ln EX \quad (1)$$

(0.61) (2.86)

$$R^2 = 0.98 \quad D.W. = 2.02 \quad N = 1971-1990$$

b. Freight Payments (FRD)

When Thailand's imports are transported by its own carriers, no payments on freight are recorded in its balance of payments. On the other hand, if foreign carriers are employed, payments on freight will be debited. Hence, the two variables used for explaining Thailand's payments on freight, are the value of Thai imports (IM) and the number of inward tonnage registered by Thai carriers (FLETI). The former should have a positive (+) expected sign, while the latter, a negative (-) one. However, the preliminary regression result showed that the relation between FLETI and FRD is not sufficiently significant. Such a phenomenon implied that although the regulation of using Thai carriers

for the imports of goods by Thai government agencies has been widely enforced particularly during the recent years, most Thai importers still prefer using the service of foreign carriers. In addition, due to the method employed in estimating freight on imports, strong impact of import value offset the substitution effects of Thai fleets for those of foreigners. Hence, after deleting FLETI, the regression equation of FRD can now be rewritten as:

$$\ln \text{FRD} = -1.993 + 0.991 \ln \text{IM} \quad (2)$$

(-15.05) (68.47)

$$R^2 = 0.99 \quad \text{D.W.} = 1.91 \quad N = 1976-1990$$

1.4.2 Other Transportation

The main category of Thailand's other transportation is passenger fares. Therefore, the determinants of Thailand's other transportation is presumably the same as those of passenger fares.

a. Receipts from Other Transportation (OTC)

Foreign exchange earned from other transportation is mainly determined by the availability of Thai national airplanes (AIP), i.e.

$$\ln \text{OTCR}^1 = 0.248 + 1.581 \ln \text{AIP} \quad (3)$$

(0.63) (12.39)

$$R^2 = 0.91 \quad \text{D.W.} = 1.91 \quad N = 1976-1990$$

The coefficient indicated that, *ceteris paribus*, an increase of 1 per cent in the number of Thai national airplanes will induce a rise of as much as 1.6 per cent in Thailand's receipts from the other transportation category.

b. Payments on Other Transportation (OTD)

On the payment side, apart from passenger fares arising from outbound tourists, the payment on bunkers oil acquired by Thai

1. Receipts from other transportation (OTC) deflated by Thailand's consumer price index.

national airplanes is another important item associated with Thailand's payments on other transportation. Since the payments on bunkers oil vary directly with the number of Thai national airplanes, the explanatory variables used as the determinant of OTD is the number of Thai national airplanes (AIP) which has positive (+) expected sign. Its regression equation is:

$$\ln \text{OTDR}^2 = 3.863 + 1.04 \ln \text{AIP} \quad (4)$$

(8.603) (7.742)

$$R^2 = 0.96 \quad \text{D.W.} = 2.53 \quad N = 1976-1990$$

The equation implied that the number of Thai national airplanes and Thailand's payments on other transportation will increase by approximately at the same rate.

1.4.3 Tourism

a. Receipts from Tourism (TVRC)

Being an exotic country with an ancient history and unique culture, Thailand has experienced rapid growth in her tourism industry. Foreign tourists visiting the country increased from only 1 million in 1975 up to 2 million in 1981 and surged to 5 million in 1990. However, in certain years, i.e. 1976 and 1983, number of foreign tourists declined. This was due, in part, to the political uncertainty prevailing in Indochina after the invasion of Laos and Cambodia by Vietnam and the adverse effects from the recession in the world economy. Hence, it is obvious that growth in the tourism industry in Thailand is, to some extent, determined by the demand from overseas tourists.

Therefore, apart from EXRB which is the exchange rate index of US dollar per 1 unit of baht³, two additional explanatory variables are simultaneously employed namely real weighted average GDP of major tourist's countries (GDPR)⁴ and the one year lag-dependent variable.

-
2. Payments on other transportation (OTD) deflated by world consumer price index.
 3. During their stay in Thailand, most foreigners make payments in baht, so the appropriate exchange rate used in this case should be in terms of foreign currency per one unit of baht.
 4. Thailand's major tourist's countries are Japan, Malaysia, USA, Germany, France, Singapore, United Kingdom, Australia, India, Italy, Switzerland and Netherlands.

Both TVRC and GDPR are in US dollar terms. The demand function for traveling in Thailand is:

$$\ln TVRC = 2.684 + 2.010 \ln GDPR - 0.627 \ln EXRB + 0.632 \ln TVRCR \quad (5)$$

(2.46) (2.93) (-2.51) (4.18)

$$R^2 = 0.99 \quad D.W. = 1.80 \quad N = 1971-1990$$

The regressed coefficients can be interpreted that, as tourism being classified as luxurious goods, a one per cent increase in real income of foreign tourists will induce the surge of real tourist spending in Thailand by 2 per cent. Therefore, the decline in inbound tourists in 1983 can largely be attributed to the weakening world economic activity.

b. Payments on Travelling (TVRD)

Regarding payments on out-going tourism (TVRD), the explanatory variable is the rate index of baht against 1 unit of US dollar (EXRS)⁵. The regression equation is:

$$\ln TVRD = 5.589 + 2.388 \ln GDPTR - 2.186 \ln EXRS \quad (6)$$

(56.34) (12.06) (-3.28)

$$R^2 = 0.97 \quad D.W. = 1.82 \quad N = 1971-1990$$

From the regression coefficients, one can interpret that, like the income inbound tourism, the change in payments on out-going tourists of Thailand in terms of US dollar is considered "elastic" with respect to both income and the exchange rate. In other words, it implied that a 1 per cent increase in real income will cause an increase of 2.4 per cent in payments on out-going tourists, while a 1 per cent appreciation in the value of the baht will induce the increase in such payment by 2.2 per cent.

5. In contrast with the unit of exchange rate used for the receipts from tourism, since the payments of out-going tourists have to be in foreign currencies particularly in US dollar, so exchange rates in terms of baht per one unit of US dollar (EXRS) is used instead of EXRB.

II. Identification of Current Problems and Issues in Trade in Services

2.1 The Services Account in the Balance of Payments

With respect to non-factor services in Thailand's Balance of Payments, Thailand experienced the contrast effect of two items: the large amount of deficit in freight and insurances and the huge surplus in travel.

a) The deficit in freight and insurance on merchandise is the main cause of the deficit in non-factor services. This is related to the problem in the transportation sector especially in the international shipping business in which Thai firms constitute a small market share of not more than 10 per cent. This is due to the Thai shipping industry being limited by old- and small-sized Thai freighters which cannot meet demand for shipping. Thai exporters and importers prefer to export on f.o.b. basis but import on c.i.f. basis.

Although, Thailand has almost 30 ocean liners with more than 200 ships, the capacity is only 0.1 per cent of the world fleet and 0.9 per cent of the Asian fleet. All of these companies are small, most of them held by Thai residents, only 4 companies have more than 20 per cent foreign shareholders. These ocean liners are only 10 per cent out of 265 per cent ocean liners operating in Thailand, with the capacities of only around 800,000 DWT. Meanwhile, in 1989, the volume of Thailand's international trade transported by ocean liners totalled 60.1 million tons, where only 8.1 per cent are conveyed by Thai ships. The volume of Thailand's international trade increased more than three times from 19.3 million tons in 1975 to 60.1 million tons in 1989, but the capacity of Thai marine fleet grew by merely 4.4 per cent during the same period.

b) In contrast to the freight and insurance services, the surplus in travel has played an important role in offsetting the deficit in trade balance especially in the 1980's. This was due to the government's efforts, in cooperation with the private sector, to promote the tourism industry by intensifying security arrangements for foreign tourists coupled with the improvement in the efficiency of services related to the tourism industry. The government's policy on such industry was given further impetus when the years 1982 and 1987 were designated "Bangkok Bicentennial Year" and "Visit Thailand Year", respectively.

The outcome of these efforts has been evident since 1986, with the average growth rate of tourism revenue during 1986-1990 at 31 per cent per annum, or up from around US\$ 1.2 billion in 1985 to US\$ 4.3 billion. The number of inbound tourist rose from 2.4 million in 1985 to 5.3 million in 1990, representing an average annual rise of 17 per cent.

The success of the "Visit Thailand Year 1987" could be attributed to the proud achievement of the Thai people, as it was the result of the cooperation in all sectors of the whole kingdom. This Visit Thailand Year project was set up before 1986. The operating period was January 1986 - July 1988. The objectives were to celebrate his Majesty's auspicious fifth twelve-cycle birthday on December 5, 1987, and his reign as Thailand's longest-reigning monarch on July 2, 1988. In addition, the promotion was also aimed to expand Thailand's promotion activities and tourism development; to publicize and disseminate understanding of the importance of the tourism industry; and secure necessary cooperation to achieve such objectives.

Factors contributing to the success of the Visit Thailand Year were:

- i) Improved economic conditions, particularly in major tourist-market countries such as the United States, Western Europe and Japan, which enabled more nationals of these countries to travel abroad, including Thailand. Moreover, currencies of most major economic powers had appreciated in value, giving Thailand significant price advantages.
- ii) Stable and satisfactory world oil price, while political unrest and terrorism in certain areas of the world made the Asia-Pacific region more attractive to tourists.
- iii) Thailand's overall economic growth, social and political stability helped accelerated tourism during the Visit Thailand Year. Low cost of living contributed to Thailand competitiveness vis-a-vis other destinations both in prices and services.
- iv) Government support including budgetary support, the increased cooperation of government offices on a national, regional and provincial level, and the increased cooperation between the public and private sectors.

- v) Private sector support was equally important in making the Visit Thailand Year a success. The local media provided coverage of activities. Companies and department stores contributed with souvenirs, shipping bags, exhibitions, displays, and co-sponsored tourism documentaries for television. Banks provided more outlets for money exchange services and tourist information, including maps and guide books.
- vi) TAT started the Visit Thailand Year marketing campaign during 1986. There were several sales promotions conducted between foreign tourism representatives and their Thai counterparts. Public relations activities included press releases, newsletters, video, film and slide presentations, and press coverage on the activities of His Majesty the King. Thailand's tourism attractions, arts and culture were reproduced in larger volumes specially for the occasion.

2.2 Liberalization of Market Access in Trade in Services

2.2.1 Mode of Access

Market access is indeed a very important issue in multilateral trade negotiations. Market access can occur through several modes of delivery, namely:

- *cross-border*, i.e. through the use of telecommunications network or mail facilities, or through the temporary movement of personnel, but without a commercial presence. Market access through cross-border generally occur in services such as transportation, telecommunication and tourism services. Such mode of delivery, are, by and large, not as strictly regulated since they do not involve permanent establishments as is the case of access through commercial presence.
- *commercial presence*, where 4 common forms exist, i.e. through the establishment of an agent, representative office, branch or subsidiary. Few restrictions exist for the establishment of a representative office or an agent (e.g. representative office of a bank or agent of an insurance company). However, for branches or subsidiaries (if applicable), a number of measures are in place to regulate such establishments. Such measures

include local investment rules, equity participation, and compliance with other domestic regulation regarding the establishment of firms..

The research carried out thus far only deals with non-factor services, which largely involve the cross-border of services and are, by and large, relatively unrestricted, except in the case of labour services which involve immigration regulations. Nevertheless, such immigration rules deal with objectives beyond those of trade, namely national security, labour relations etc.

Indeed factor services, deal with a web of regulatory regime ranging from equity participation, number of service operators, geographical location and limitations on the scope of operation (foreign banks are only allowed to be established in a certain geographical areas, or can only operate a limited type of services). The Thai regulatory system also stipulates the Alien Business Law B.E. 2515 (1972) and the Alien Employment Act B.E. 2521 (1978) where certain types of business, services and occupations are reserved only for Thai nationals. Foreigners may enter the market only through joint venture with a maximum equity participation of 49 per cent, while in certain occupations, foreigners are effectively barred from engaging in that profession, eg. lawyers.

Countries are required to liberalize their services sector beyond the non-factor services. For instance, in financial services, it is more or less taken for granted that a country would impose no restrictions on reinsurance and retrocession, which are in essence cross-border services. Rather, the subject of further intense negotiations will be that of branch or subsidiary opening of foreign insurance companies, or financial institutions. Thus negotiations are aimed at achieving market access in commercial establishment, which are defined as the right to establish, expand (through branch network), or acquire existing establishment.

2.2.2 Potential Conflicts of Interest

Conflicts of interest arising from the government's effort to develop its own services industries, (hence employing protective measures or barriers to trade) and the offer of services at competitive prices naturally arise in any economy. However, one must not lose sight of

the fact that the offer of services by foreign suppliers at competitive prices may only be a short-term blessing. Once, the foreign transnational corporations acquire a firm foothold or market niche in the domestic market, there is nothing to prevent them from increasing the prices of their services. When this happens domestic consumers will naturally suffer.

Thus, it is only sensible and fair that governments should endeavour to develop its own services industry, both government or private services. The cost of dependence on transnational corporation, irrespective of the efficiency in the initial stage, is likely to outweigh its benefits if left entirely in foreign hands. Moreover, services being an intermediate demand, constitute a vital component of the entire economic system.

It is natural that during the transition period, prices of services may be higher through government's efforts to develop its own services industries. This is a fact of life that would have to be tolerated. Once the domestic services industries have attained a certain level of development and economy of scale, a more competitive pricing can be obtained.

2.3 Barriers to Trade in Services

Because of the "invisible" properties of services, imports of services typically cannot be controlled by tariffs or by some form of quotas. Barriers to the imports of services are rather analogous to nontariff barriers (other than quotas), or what largely falls into the grey area measures. This is an area which GATT has as yet to rule whether or not they breach the letter of the agreement.

The efficient delivery of many services requires the producer to have a commercial presence in the buyer's market, so that international service transactions often entail foreign investment. Many of the most effective barriers to international trade in services are indeed restrictions on establishment.

In Thailand, as in other countries, numerous restrictions on trade in services exist, ranging from government procurement regulations eg. civil servants must travel by national airlines, to subsidies, local content rules, barriers to new entry of service suppliers, or local infrastructure

required to service the market (eg. telecommunications systems), and rules on the establishment of foreign-owned enterprises.

2.4 Mandate to Liberalize Trade in Services

Since non-factor services are relatively free from controls, the need to obtain mandate for liberalization of trade in non-factor services may not be as urgent. Nevertheless, it should be noted that any legal mandate for the liberalization of trade in services in actual negotiations are not necessarily confined to the strict statistical definition of non-factor services. Thus, factor services are very much a part of the liberalization process being discussed in the Uruguay Round. This, therefore, entails a wider scope of liberalization, involving areas such as domestic laws and regulations in the supervision of domestic, as well as foreign service provider operating in the country.

2.5 Statistics on Trade in Services

Statistics in services are generally less complete than statistics in goods for a number of reasons:

1. Services are by their nature invisible and intangible, with no generally accepted unit of value such as metric tons, barrels or bushels. Moreover, a number of services are embodied in goods, eg. labour services. For instance, if a man paints a car in a manufacturing company, his wage is part of the cost of production of that company. Whereas, if that same man paints his own house, then his labour is part of the value-added of services in the economy. Such conceptual problem often poses problems for statistical records.
2. Not all services are provided through every mode of delivery. Services consumed by households tends to be provided through direct foreign investment (eg. retail banking, insurance) or through the movement of the consumer (medical service, tourism), while producer or intermediate services (eg. advertising, consulting, accounting or perhaps transport or construction services) involve movement by the service producer, which may not require a permanent base in the consuming country.

3. Conceptually, international trade in services involves the movement of either capital funds for the payments of the services or the movement of the capacity to provide a service such as goods or person which is the subject of the services involved. These items do not move through the customs channel in the same manner as goods such as apples or automobiles.

III. Policy Measures Undertaken to Deal with the Problems Arising Out of Trade in Services

3.1 Policy Measures Applied to Trade in Services

Measures applied to attend to the trade in services problems generally involve measures to nurture and foster the healthy and sustainable development of domestic service sector.

Measures to promote the Thai maritime sector:

- Enterprises receiving the Board of Investment promotion have initially been granted a waiver of corporate income tax for the first 5-8 years. Recently, the period has been changed to 3-5 years. In addition, tax deduction of up to half of the stipulated rate has also been permitted for duties on imported equipment, capital and machinery.
- Goods imported by government agencies and state enterprises on certain routes are required to use the service of Thai ships.
- Enterprises or businesses which have contracted Government projects are required to transport any imported items for use thereof through Thai ships.
- Ships rented from abroad for use where there are insufficient Thai freighters, will receive the same benefits and incentives as Thai ships, including tax relief for rent payment at the rate of 1 per cent rather than 25 per cent.

Measures in the pipeline include:

- Consideration to waive income tax for three cases: the sale of ships, the replacement of damaged ships by insurance companies to ship owners, and the reinvestment in new ships.

Such financial incentives aim to promote and encourage investment in the acquisition of new ships.

- Consideration to promote additional source of funds to both ship-owners and ship repair business, through government financial institutions or financial institutions where the government has an equity interest.

In other transportation services namely air travel, the Government has partially privatised the national airline, the Thai Airways International, by listing the airline's stocks in the Stock Exchange of Thailand. This will provide a large source of funds for the airline to expand businesses and enlarge their fleet. In addition, private investors will also be given the opportunity to share in the wealth and profits of the company.

Policies mentioned above are indeed very much in its infancy, and therefore any assessment of its effectiveness is very much tentative and preliminary. Economic expectations maintains that the strengthening of domestic services industries should help reduce persistent deficits on the services account of the balance of payments. In reality, one must also face the fact that as developing economies begin to acquire the necessary skills in the supply of essential services, developed countries will move on to research and develop new and sophisticated types of services. Nevertheless, such measures represent initial moves to promote greater sufficiency and efficiency of the country's services sector.

3.2 The Impact of the Uruguay Round Negotiations on Trade in Services

The Uruguay Round negotiations on trade in services will unavoidably have tremendous impacts on trade in services in Thailand. It is well recognized that as regards to non-factor services, such as freight and insurance, the government rarely restricts the payments for such services as they constitute an essential component of production and trade, which the country does not have comparative advantage. It is, thus, largely in the area of factor services, involving right of establishment, which although the country has the advantage (eg. commercial banking), will not be keen to open up.

Private sectors in particular, whether local or foreign, are not likely to welcome new entrants into the market, as their market share will

inevitably fall. This is an interesting aspect. For instance in the case of the financial services sector, existing banks, both local and foreign banks with an established commercial presence in Thailand, are not likely to welcome entry of new foreign banks, as their market share may be substantially reduced.

Overall, open competition will benefit the consumers who will have a greater variety of services at a more competitive pricing.

IV. Major Findings and Concluding Remarks

During the past decade, trade in services have become an increasingly important component of Thailand's current account. Although the studies points to the success of the Thai tourism industry, it can by no means be concluded that Thailand can immediately open up all its service sector in the Uruguay Round.

The negotiations that are being conducted in the Group Negotiations on Services (GNS) will indeed have far-reaching implications on the conduct and the regulation of service businesses worldwide. This is because, with commercial presence in the provision of services, the GATTS is entering into the area of factor services, which statistically have not been fully disaggregated or studied in detail.

Another concern is the tourism industry, which in most of the studies would have shown a favourable performance. Just as in the case of the overall balance of payments of the world which cannot be anything but balance, i.e. that countries' surplus must be offset by another group of countries' deficits, the tourism services must also fall into this discipline. However, most SEACEN countries record a surplus in their tourism income. This, indeed, is not sustainable. As the country gradually moves into a NIC status, the incomes of the population would rise to such an extent that it would be relatively cheaper to consume tourism services overseas. When that stage arrives, the country must be prepared to strengthen their overall services industry in time to compensate for the losses in their tourism income.

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GROSS DOMESTIC PRODUCT

(Million US Dollars)

	1975	1976	1977	1978	1979	1980	1981	1982	1983	1984	1985	1986	1987	1988	1989	1990
AT CURRENT PRICE	15166	17326	20176	24003	27368	32154	34839	35652	39568	41176	37385	41690	48740	59637	69166	81640
Agriculture and Mining	4405	5049	5616	6698	7475	8545	8458	7911	9219	8805	7742	8097	9493	11795	12736	13190
Manufacturing	2832	3409	4072	4801	5760	6833	7766	7668	8450	9224	8272	9844	11642	14774	17652	21600
Construction	580	755	986	1199	1322	1697	1748	1804	2086	2373	2094	2153	2571	3356	4373	5820
Trade	2909	3106	3712	4439	4744	5380	6301	6257	6411	6552	5643	6510	7611	9501	10622	12375
Services	4440	5007	5790	6865	8067	9699	10567	12013	13402	14223	13633	15086	17422	20212	23782	28655
Electricity and Water Supply	171	196	244	279	318	307	500	681	742	788	869	1039	1216	1358	1616	1935
Transportation and Communication	840	1010	1117	1350	1576	1849	2101	2419	2644	2941	2877	3249	3615	4222	4792	5500
Banking, Insurance and Real Estate	401	444	534	671	800	973	1038	1136	1354	1456	1326	1416	1959	2571	3421	4775
Ownership of Dwellings	677	748	825	881	970	1113	1193	1295	1472	1576	1514	1707	1898	2085	2276	2640
Public Administration and Defence	668	734	817	975	1150	1500	1525	1726	1938	1904	1789	1925	2050	2232	2505	2980
Other Services	1683	1875	2254	2710	3252	3957	4210	4756	5252	5558	5257	5750	6685	7743	9172	10825
AT CONSTANT PRICE	10221	11180	12286	13342	13996	14623	14594	14408	15453	16106	14525	15738	17605	20280	22362	24710
Agriculture and Mining	2748	2941	3058	3407	3350	3403	3333	3268	3393	3533	3259	3372	3467	3934	4186	4175
Manufacturing	2035	2347	2683	2868	3093	3173	3165	3079	3338	3467	3002	3435	3978	4728	5346	6140
Construction	381	468	558	641	630	658	635	617	686	742	613	615	712	879	1049	1290
Trade	1743	1894	2098	2242	2291	2474	2525	2370	2505	2626	2365	2573	2970	3477	3933	4360
Services	3314	3530	3889	4185	4632	4914	4915	5073	5530	5738	5285	5742	6477	7263	7649	8745
Electricity and Water Supply	163	183	212	240	263	288	302	328	359	382	366	419	480	554	643	755
Transportation and Communication	622	660	730	773	878	979	946	987	1067	1145	1038	1149	1272	1433	1583	1765
Banking, Insurance and Real Estate	265	282	315	367	398	405	383	398	458	488	434	455	614	776	980	1295
Ownership of Dwellings	562	588	617	636	669	698	684	673	698	704	640	686	738	800	834	925
Public Administration and Defence	485	530	584	603	692	754	771	775	874	844	787	846	892	949	923	940
Other Services	1217	1287	1431	1566	1731	1791	1829	1911	2074	2174	2020	2187	2481	2751	2885	3065

**POPULATION, LABOUR FORCE AND
EMPLOYMENT OF THAILAND**

	1986	1987	1988	1989	1990E
Population */	52.97	53.87	54.96	55.89	56.73
Labour Force 1/ **/	27.33	28.64	29.49	30.34	31.04
Employee Persons	25.81	26.94	28.21	29.25	29.85
Agriculture ***/	16.44	16.64	17.24	17.59	17.68
Non-Agriculture ***/	9.37	10.30	10.97	11.66	12.17
- Manufacturing	2.40	2.66	2.85	3.06	3.20
- Construction	0.68	0.74	0.80	0.87	0.93
- Services	6.29	6.91	7.32	7.74	8.04
Unemployed Persons 2/ **/	1.52	1.70	1.28	1.09	1.19
Open Unemployed 3/	0.42	0.40	0.29	0.23	0.20
Passive Unemployed 4/	1.10	1.30	0.99	0.86	0.99

1/ Includes persons, 13 years of age and above, who are available for work.

2/ Includes persons who were in the labour force and not employed.

3/ Includes unemployed persons who were looking for work.

4/ Includes unemployed persons who were not looking for works.

Notes: 1. Seasonally inactive labour force is included in employed persons.

2. E = Estimated

Sources: */ Office for Central Civil Registration, Department of Local Administration.

**/ National Statistical Office: Labour Force Survey (Round 1 and 3).

***/ Estimated by the Bank of Thailand.

BALANCE OF PAYMENTS

(Million US Dollars)

	1975	1976	1977	1978	1979	1980	1981	1982	1983	1984	1985	1986	1987	1988	1989	1990
Exports, f.o.b.	2218.2	3018.1	3523.2	4043.2	5234.9	6447.6	6801.9	6834.9	6407.6	7337.0	7077.0	8829.0	11609.2	15857.9	19938.5	22880.7
Imports, f.o.b.	2903.7	3215.1	4536.2	4916.3	6820.9	8378.3	8940.8	7565.5	9168.8	9236.7	8383.1	8417.4	11965.2	17799.3	22737.3	29479.1
Trade Balance	-685.5	-197.0	-813.0	-871.1	-1586.0	-1930.7	-2048.9	-730.6	-2861.1	-1899.7	-1306.1	-411.6	-356.0	-1941.4	-2798.8	-6598.4
Services (Net)	-14.4	-27.1	-346.6	-320.7	-553.5	-354.8	-699.6	-458.2	-298.2	-384.9	-350.9	-336.6	-158.9	206.6	177.6	-727.0
Receipts	827.7	699.6	738.6	1088.1	1428.4	2125.0	2352.0	2376.9	2918.9	3077.4	3165.0	3336.0	4171.3	5950.5	7053.1	8485.9
Non-factor service	623.3	542.3	580.8	922.7	1221.7	1805.6	2087.1	2331.6	2691.7	2857.1	2920.0	3099.0	3913.1	5380.1	6407.0	7598.5
Factor service	194.4	157.3	151.8	165.4	206.7	259.4	264.9	245.3	227.2	220.3	245.0	237.0	258.2	370.4	646.1	1087.4
Payments	842.1	974.7	1085.2	1408.8	1982.0	2479.8	3051.6	5053.1	3217.1	3462.3	3515.9	3672.6	4530.2	5743.9	6875.5	9212.9
Non-factor service	653.3	775.1	859.4	1006.5	1429.3	1649.8	1845.4	1703.6	1949.3	1966.3	1864.9	1881.6	2459.4	3641.7	4626.9	6501.5
Factor service	188.8	199.6	225.8	402.3	652.7	830.0	1206.2	1351.5	1267.8	1496.0	1651.0	1791.0	1870.8	2102.2	2248.6	2711.4
Transfers (Net)	81.6	23.2	-40.1	-40.1	59.8	216.2	169.4	182.8	277.3	174.0	166.0	225.0	225.4	236.3	246.1	213.1
Services and Transfers (Net)	67.2	-251.9	-306.5	-280.6	-493.7	-138.6	-530.2	-275.4	-20.9	-210.9	-184.9	-111.6	66.5	442.9	423.7	-513.9
Current Account	-618.3	-448.9	-1119.5	-1151.7	-2085.8	-2069.3	-2569.1	-1006.0	-2882.0	-2110.6	-1491.0	300.0	-289.5	-1498.5	-2475.1	-7112.3
% GDP	-4.1	-2.6	-5.5	-4.8	-7.6	-6.4	-7.4	-2.8	-7.3	-5.1	-4.0	0.7	-0.6	-2.5	-3.4	-8.7
Capital Movements	387.4	-63.2	698.3	729.4	1653.5	2480.1	2485.4	1667.2	1507.9	2475.7	1852.9	437.5	842.1	2878.1	5948.8	8128.2
Private Sector	284.8	253.0	118.0	176.3	640.2	1248.9	922.6	750.9	794.2	1778.7	679.9	480.5	644.2	2936.8	6244.0	9371.1
Public Sector	102.6	210.2	280.3	553.1	1013.3	1231.2	1562.8	916.3	713.7	697.0	1173.0	-43.0	197.9	-58.7	-295.2	-1242.9
SDRs Allocation	0.0	0.0	0.0	0.0	24.2	24.8	23.6	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Error and Omissions	88.0	-18.4	44.3	-232.6	68.4	-128.5	189.9	-517.1	588.1	58.9	99.1	541.5	142.8	224.2	770.0	1190.0
Balance of Payments	-142.9	-4.1	-376.9	-654.9	-888.1	257.5	82.6	144.1	-786.0	-424.0	461.0	1279.0	695.4	1603.8	-4343.7	2205.9
Reserves	1775.1	1892.9	1914.9	2557.3	3129.0	3026.1	2726.1	2651.6	2555.1	2688.6	3003.5	3776.4	5211.7	7111.8	10508.8	14272.7

AT CONSTANT PRICE																
Exports, f.o.b.	1103.5	1549.5	1776.6	1862.1	2031.1	2286.8	2148.9	2296.3	2113.1	2471.4	2340.5	2847.7	3504.9	4408.9	5300.6	6061.9
Imports, f.o.b.	1538.9	1572.4	1965.1	2035.3	2458.3	2437.9	2193.5	1814.8	2354.2	2324.5	1957.6	2121.6	2781.5	3765.4	4495.3	5529.5
Service Receipts	509.5	411.9	417.8	585.6	658.1	882.7	860.7	894.0	983.2	1031.9	1005.1	1033.8	1264.0	1731.3	1968.8	2177.1
Non-factor service	365.1	304.3	322.0	488.6	546.2	754.2	739.9	790.0	891.6	946.9	914.5	948.2	1173.4	1605.6	1758.7	1840.0
Service Payments	554.3	596.4	607.8	739.3	960.1	1052.5	1187.5	1128.0	1146.0	1193.6	1177.3	1242.7	1377.2	1704.1	1912.1	2471.1
Non-factor service	413.7	458.7	464.4	502.7	603.9	639.9	636.4	562.3	632.3	614.8	564.9	583.1	718.2	986.5	1177.1	1626.1

SERVICE TRANSACTIONS

(Million US Dollars)

	1975	1976	1977	1978	1979	1980	1981	1982	1983	1984	1985	1986	1987	1988	1989	1990
SERVICE RECEIPTS																
Non-Factor Service	827.7	699.6	738.6	1088.1	1428.4	2125.0	2352.0	2576.9	2918.9	3077.4	3165.0	3336.0	4171.3	5950.5	7053.1	8485.9
Freight and Insurance	635.3	542.3	586.8	922.7	1221.7	1865.6	2087.1	2331.6	2691.7	2857.1	2920.0	3099.0	3913.1	5580.1	6407.0	7398.5
Other Transportation	61.4	80.2	86.5	105.5	127.1	189.0	218.4	219.4	259.2	298.6	341.0	344.0	390.9	459.2	449.9	465.4
(Passenger Fares) 1/	63.5	56.6	73.4	68.1	107.5	117.7	97.3	143.2	156.3	170.6	132.0	112.0	328.9	537.4	628.4	872.4
(Port Services)	29.5	19.1	13.4	14.4	49.4	49.1	37.4	56.6	26.4	34.5	30.0	13.5	227.4	401.2	415.6	660.2
(Others)	28.6	32.1	50.9	49.0	51.0	60.9	54.0	79.5	121.9	124.3	77.0	72.3	59.9	119.3	150.3	146.2
Travel	5.3	5.4	9.2	4.7	7.1	7.6	5.9	7.1	8.0	11.8	25.0	26.1	41.7	16.9	62.5	66.0
Government N.I.E.	224.1	199.5	230.4	437.5	550.2	867.4	982.7	1038.2	1089.1	1155.8	1171.0	1420.0	1946.8	3121.5	3758.9	4327.9
Other Services	176.0	102.6	54.1	65.7	83.6	123.4	105.9	100.0	112.9	106.7	142.0	114.0	124.2	129.9	139.4	127.6
(Labour Income)	108.3	103.4	142.4	245.9	353.4	568.1	682.8	830.8	1074.2	1125.4	1134.0	1109.0	1122.3	1332.1	1430.4	1605.2
(Copyright and Royalty)	18.8	24.3	45.6	103.9	187.0	364.8	475.2	618.3	846.0	893.9	878.0	798.0	840.4	927.4	943.9	974.0
	0.0	0.0	0.0	0.0	0.0	0.5	0.0	0.2	0.0	0.0	0.0	0.2	0.1	0.3	0.1	0.0
Factor Service																
Investment Income	194.4	157.3	151.8	165.4	206.7	259.4	264.9	245.3	227.2	220.3	245.0	237.0	258.2	370.4	646.1	1087.4
SERVICE PAYMENTS																
Non-Factor Service	842.1	974.7	1085.2	1408.8	1982.0	2479.8	3051.6	3035.1	3217.1	3462.3	3515.9	3672.6	4330.2	5743.9	6875.5	9212.9
Freight and Insurance	653.3	775.1	859.4	1006.5	1329.3	1649.8	1845.4	1703.6	1949.3	1966.3	1864.9	1881.6	2459.4	3641.7	4626.9	6501.5
Other Transportation	363.7	411.9	531.3	615.7	813.9	1026.4	1128.1	992.6	1144.1	1182.3	1073.9	1074.6	1476.9	2234.0	2846.0	3582.0
(Passenger Fares)	32.2	27.2	34.5	48.0	80.1	101.0	99.7	99.2	133.1	117.0	131.0	127.0	147.2	186.7	236.4	321.5
(Port Services)	18.1	14.5	23.8	36.4	48.2	66.9	62.9	70.2	98.0	91.1	78.7	89.0	114.8	161.5	195.9	252.5
(Others)	11.7	7.7	6.1	7.9	12.9	17.0	25.2	24.5	33.0	22.4	47.2	34.2	28.7	20.5	31.5	63.7
Travel	2.4	5.0	4.6	3.6	19.1	17.1	11.6	4.5	2.1	3.5	5.1	3.8	3.7	4.7	9.0	5.3
Government N.I.E.	136.7	194.1	159.2	175.8	227.7	243.8	276.2	267.4	343.3	311.0	281.0	297.0	385.3	603.7	746.9	1433.5
Other Services	15.2	22.9	22.4	25.8	27.7	35.9	73.2	68.2	63.5	53.0	72.0	65.0	104.6	105.4	121.5	149.1
(Labour Income)	105.5	119.0	112.0	141.2	179.9	242.7	268.2	276.2	265.3	303.0	307.0	318.0	345.4	511.9	636.1	1015.4
(Copyright and Royalty)	13.1	11.5	10.5	15.3	19.0	34.8	38.6	50.5	45.7	59.9	73.4	66.9	66.9	102.9	134.2	212.4
	12.8	12.9	16.9	19.8	22.4	29.8	37.4	37.9	40.6	49.2	45.6	47.6	56.6	88.4	128.1	170.1
Factor Service																
Investment Income	188.8	199.6	225.8	402.3	652.7	830.0	1206.2	1331.5	1267.8	1496.0	1651.0	1791.0	1870.8	2102.2	2248.6	2711.4

Appendix 9.4 (Cont'd)

	1975	1976	1977	1978	1979	1980	1981	1982	1983	1984	1985	1986	1987	1988	1989	1990
SERVICE (NET)	-14.4	-275.1	-346.6	-330.7	-553.5	-354.8	-699.6	-458.2	-298.2	-384.9	-350.9	-336.6	-158.9	206.6	177.6	-727.0
Non-Factor Service	-20.0	-232.8	-272.6	-83.8	-107.5	215.8	241.7	628.0	742.4	890.8	1055.1	1217.4	1453.7	1938.4	1780.1	897.0
Freight and Insurance	-302.3	-431.7	-444.8	-510.2	-686.8	-837.4	-909.7	-773.2	-884.9	-883.7	-732.9	-730.6	-1086.0	-1774.8	-2436.1	-3116.6
Other Transportation	31.3	29.4	38.9	20.1	27.4	16.7	-2.4	44.0	23.2	53.6	1.0	-15.0	181.7	350.7	392.0	550.9
(Passenger Fines)	11.5	4.6	-10.4	-22.0	1.3	-17.8	-25.5	-13.6	-71.5	-56.7	-48.7	-75.4	112.6	239.7	219.7	407.7
(Port Services)	16.9	24.4	44.8	41.0	38.1	44.0	28.8	55.0	88.9	101.9	29.8	38.1	31.2	98.8	118.8	82.5
(Others)	2.9	0.4	4.5	1.1	-11.9	-9.5	-5.7	2.6	5.9	8.3	19.9	22.3	37.9	12.3	53.5	60.7
Travel	87.4	5.4	71.2	261.7	322.5	623.6	706.5	770.8	745.8	844.8	890.0	1123.0	1561.5	2517.8	3012.0	2894.4
Government N.I.E.	169.8	79.7	31.7	39.9	55.9	87.5	32.7	31.8	49.4	53.7	70.0	49.0	19.6	24.5	17.9	-21.6
Other Services	2.8	-15.6	30.4	104.7	173.5	325.4	414.6	554.6	808.9	822.4	827.0	791.0	776.9	820.2	794.3	589.8
(Labour Income)	5.7	12.8	35.1	88.6	108.0	330.0	436.6	567.8	800.3	834.0	804.6	731.1	773.5	824.5	809.7	761.6
(Copyright and Royalty)	-12.8	-12.9	-16.9	-19.8	-22.4	-29.3	-37.4	-37.7	-40.6	-49.2	-43.6	-47.4	-56.5	-88.1	-128.0	-170.1
Factor Service																
Investment Income	5.6	-42.3	-74.0	-236.9	-446.0	-570.6	-941.3	-1086.2	-1040.6	-1275.7	-1406.0	-1554.0	-1612.6	-1731.8	-1602.5	-1624.0

1/ Prior to 1987 excluding receipts deposited in foreign exchange account.

SHARE IN SERVICE TRANSACTIONS

(Million US Dollars)

	1975	1976	1977	1978	1979	1980	1981	1982	1983	1984	1985	1986	1987	1988	1989	1990
SERVICE RECEIPTS																
Non-Factor Service	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Freight and Insurance	76.5	77.5	79.4	84.8	85.5	87.8	88.7	90.5	92.2	92.8	92.3	92.9	93.8	93.8	90.8	87.2
Other Transportation	7.4	11.5	11.7	9.7	8.9	8.9	9.3	8.5	8.9	9.7	10.8	10.3	9.4	7.7	6.4	5.5
Travel	7.7	8.1	9.9	6.3	7.5	5.5	4.1	5.6	5.4	5.5	4.2	3.4	7.9	9.0	8.9	10.3
Government N.I.E.	27.1	28.5	31.2	40.2	38.5	40.8	41.8	40.3	37.3	37.6	37.0	42.6	46.7	52.5	53.3	51.0
Other Services	21.3	14.7	7.3	6.0	5.9	5.8	4.5	3.9	3.9	3.5	4.5	3.4	3.0	2.2	2.0	1.5
(Labour Income)	13.1	14.8	19.3	22.6	24.7	26.7	29.0	32.2	36.8	36.6	35.8	33.2	26.9	22.4	20.3	18.9
(Copyright and Royalty)	2.3	3.5	6.2	9.5	13.1	17.2	20.2	24.0	29.0	29.0	27.7	23.9	20.1	15.6	13.4	11.5
	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Factor Service																
Investment Income	24.5	22.5	20.6	15.2	14.5	12.2	11.3	9.5	7.8	7.2	7.7	7.1	6.2	6.2	9.2	12.8
SERVICE PAYMENTS																
Non-Factor Service	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Freight and Insurance	77.6	79.5	79.2	71.4	67.1	66.5	60.5	56.1	60.6	56.8	53.0	51.2	56.8	63.4	67.3	70.6
Other Transportation	43.2	42.3	49.0	43.7	41.1	41.4	37.0	32.7	35.6	34.1	30.5	29.3	34.1	38.9	42.0	38.9
Travel	3.8	2.8	3.2	3.4	4.0	4.1	3.3	3.3	4.1	3.4	3.7	3.5	3.4	3.3	3.4	3.5
Government N.I.E.	16.2	19.9	14.7	12.5	11.5	9.8	9.1	8.8	10.7	9.0	8.0	8.1	8.9	10.5	10.9	15.6
Other Services	1.8	2.3	2.1	1.8	1.4	1.4	2.4	2.2	2.0	1.5	2.0	1.8	2.4	1.8	1.8	1.6
(Labour Income)	12.5	12.2	10.3	10.0	9.1	9.8	8.8	9.1	8.2	8.8	8.7	8.7	8.0	8.9	9.3	11.0
(Copyright and Royalty)	1.6	1.2	1.0	1.1	1.0	1.4	1.3	1.7	1.4	1.7	2.1	1.8	1.5	1.8	2.0	2.3
	1.5	1.3	1.6	1.4	1.1	1.2	1.2	1.2	1.3	1.4	1.3	1.3	1.3	1.5	1.9	1.8
Factor Service																
Investment Income	22.4	20.5	20.8	28.6	32.9	34.5	39.5	43.9	39.4	43.2	47.0	48.8	43.2	36.6	32.7	29.4

GROWTH RATE OF GDP AND SERVICES

	1976	1977	1978	1979	1980	1981	1982	1983	1984	1985	1986	1987	1988	1989	1990
CURRENT PRICE															
GDP	14.2	16.5	19.0	14.0	17.5	8.4	2.3	11.0	4.1	-9.2	11.5	16.9	22.4	16.0	18.0
Exports, f.o.b.	36.1	16.7	14.8	29.4	23.2	7.0	-1.0	-7.7	16.3	-3.5	24.8	31.5	36.6	25.7	14.8
Imports, f.o.b.	10.7	34.9	13.4	38.9	22.7	6.7	-15.4	21.2	0.7	-9.2	0.4	42.1	48.8	27.7	29.7
Total Merchandise	21.7	26.1	14.0	34.6	22.9	6.9	-9.1	7.5	7.1	-6.7	11.6	36.7	42.8	26.8	22.7
Total Traded Services	0.3	8.9	36.9	36.6	35.0	17.3	3.9	9.3	6.6	2.2	4.9	21.3	37.6	19.1	27.1
Non-Factor Services	2.4	9.8	33.4	32.2	37.8	11.9	2.6	15.0	3.9	-0.8	4.1	27.9	44.7	19.7	26.0
Service Receipts	-15.5	5.6	47.3	31.3	48.8	10.7	9.6	13.3	5.4	2.8	5.4	25.0	42.7	18.5	20.3
Non-Factor Services	-14.4	8.2	57.2	32.4	52.7	11.9	11.7	15.4	6.1	2.2	6.1	26.3	42.6	14.8	15.5
Service Payments	15.7	11.3	29.8	40.7	25.1	23.1	-0.5	6.0	7.6	1.5	4.5	17.9	32.6	19.7	34.0
Non-Factor Services	18.6	10.9	17.1	32.1	24.1	11.9	-7.7	14.4	0.9	-5.2	0.9	30.7	48.1	27.1	40.5
Goods and Services	16.4	22.5	18.3	35.0	25.6	9.3	-5.8	8.0	6.9	-4.2	9.5	32.2	41.4	24.8	23.8
Exports	22.1	14.6	20.4	29.8	28.7	7.9	1.7	-2.0	12.9	-1.7	18.8	29.7	38.2	23.8	16.2
Imports	11.9	29.4	16.7	39.3	23.3	10.4	-11.6	16.8	2.5	-6.3	1.6	34.8	44.5	25.8	30.7
Goods and Non-Factor Services	2.4	9.8	33.4	32.2	37.8	11.9	2.6	15.0	3.9	-0.8	4.1	27.9	44.7	19.7	26.0
Exports	24.9	15.4	20.9	30.0	28.8	8.1	2.0	-1.8	13.3	-1.9	19.3	30.1	38.1	22.9	14.9
Imports	12.2	30.2	14.0	37.7	23.0	7.6	-14.1	19.9	0.8	-8.5	0.5	40.1	48.6	27.6	31.5
CONSTANT PRICE															
GDP	9.4	9.9	8.6	4.9	4.5	-0.2	-1.3	7.3	4.2	-9.8	8.4	11.9	15.2	10.3	10.5
Service Receipts	-19.2	1.4	40.2	12.4	34.1	-2.5	3.9	10.0	4.9	-2.6	2.9	22.3	37.0	13.7	10.6
Non-Factor Services	-16.7	5.8	51.7	11.8	38.1	-1.9	6.8	12.9	6.2	-3.4	3.7	23.8	36.8	9.5	4.6
Service Payments	7.6	1.9	21.6	29.9	9.6	12.8	-5.0	1.6	4.2	-1.4	4.7	11.7	23.7	12.2	29.2
Non-Factor Services	10.9	1.2	8.3	20.4	5.7	-0.5	-11.7	12.5	-2.8	-8.1	3.2	23.2	37.4	19.3	38.1

SERVICES RATIO

	1975	1976	1977	1978	1979	1980	1981	1982	1983	1984	1985	1986	1987	1988	1989	1990
SERVICES SECTOR/GDP (Current Price)	29.3	28.9	28.7	28.6	29.5	30.2	30.3	33.7	33.9	34.5	36.5	36.2	35.7	33.9	34.4	35.1
SERVICES SECTOR/GDP (Constant Price)	32.4	31.6	31.7	31.4	33.1	33.6	33.7	35.2	35.8	35.6	36.4	36.5	36.8	35.8	35.1	35.4
CURRENT ACCOUNT/GDP (Current Price)	-4.1	-2.6	-5.5	-4.8	-7.6	-6.4	-7.4	-2.8	-7.3	-5.1	-4.0	0.7	-0.6	-2.5	-3.4	-8.7
Total Net Services/GDP	-0.1	-1.6	-1.7	-1.3	-2.0	-1.1	-2.0	-1.3	-0.8	-0.9	-0.9	-0.8	-0.3	0.3	0.3	-0.9
Non-Factor Services (Net)/GDP	-0.1	-1.3	-1.4	-0.3	-0.4	0.7	0.7	1.8	1.9	2.2	2.8	2.9	3.0	3.3	2.6	1.1
NON-FACTOR SERVICES																
Total Services/GDP (Constant Price)	7.6	6.8	6.4	7.4	8.2	9.5	9.4	9.4	9.9	9.7	10.2	9.7	10.7	12.8	13.1	14.0
Total Services/GDP (Current Price)	8.5	7.6	7.2	8.0	9.3	10.9	11.3	11.3	11.7	11.7	12.8	11.9	13.1	15.5	16.0	17.0
Total Services/Total Trade	18.9	16.7	14.9	16.8	16.5	18.1	18.5	20.2	21.5	20.9	21.6	20.5	19.9	20.3	19.5	19.8
Total Services/Total Merchandise Receipts/Total Merchandise	25.1	21.1	18.4	21.5	21.1	23.7	24.8	28.0	30.0	29.1	30.9	28.9	27.0	27.4	25.9	26.5
Payments/Total Merchandise Receipts/Total Exports	12.4	8.7	7.5	10.3	10.1	12.6	13.2	16.2	17.4	17.2	18.9	18.0	16.6	16.6	15.0	14.1
Payments/Total Imports	12.8	12.4	10.9	11.2	11.0	11.1	11.6	11.8	12.6	11.9	12.1	10.9	10.4	10.8	10.8	12.4
Payments/Merchandise Exports	20.8	14.6	13.8	18.0	18.3	21.8	22.6	24.8	29.2	27.4	28.5	25.5	24.8	25.6	23.7	23.6
Receipts/Merchandise Exports	17.4	18.5	15.9	15.9	15.1	15.2	15.4	16.1	15.7	15.5	15.7	15.6	15.1	15.5	15.6	16.8
Payments/Merchandise Imports	28.6	18.0	16.7	22.8	23.3	28.9	30.2	34.1	42.7	38.9	41.3	35.1	33.7	35.2	32.1	32.3
Payments/Total Imports	22.5	24.1	19.8	20.5	19.5	19.7	20.6	22.5	21.3	21.3	22.2	22.4	20.6	20.5	20.3	22.1

Appendix 9.7 (Cont'd)

	1975	1976	1977	1978	1979	1980	1981	1982	1983	1984	1985	1986	1987	1988	1989	1990
FACTOR AND NON-FACTOR SERVICES																
Total Traded Services/GDP (Constant Price)	10.4	9.0	8.3	9.9	11.6	13.2	14.0	14.0	13.8	13.8	15.0	14.4	15.0	16.9	17.4	18.8
Total Trade Services/GDP (Current Price)	11.0	9.7	9.0	10.4	12.5	14.3	15.5	15.7	15.5	15.9	17.9	16.8	17.4	19.6	20.1	21.7
Total Services/Total Trade	24.6	21.2	18.8	21.8	22.0	23.7	25.4	28.0	28.4	28.3	30.2	28.9	26.5	25.8	24.6	25.3
Total Services/Total Merchandise	32.6	26.9	23.2	27.9	28.3	31.1	34.1	39.0	39.6	39.5	43.2	40.6	36.1	34.7	32.6	33.8
Receipts/Total Exports	27.2	18.8	17.3	21.2	21.4	24.8	25.4	27.4	31.6	29.5	30.9	27.4	26.4	27.3	26.1	27.1
Payments/Total Imports	22.5	23.3	20.0	22.3	22.5	22.8	25.4	28.6	26.0	27.3	29.5	30.4	26.6	24.4	23.2	23.8
Receipts/Merchandise Exports	37.3	23.2	21.0	26.9	27.3	33.0	34.1	37.7	46.3	41.9	44.7	37.8	35.9	37.5	35.4	37.1
Payments/Merchandise Imports	29.0	30.3	25.0	28.7	29.0	29.6	34.1	40.1	35.1	37.5	41.9	43.6	36.2	32.3	30.2	31.3