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The Importance of Services Trade in Global Economy

Summary: The objective of this article is to present the most important tendencies in the international services trade. Geographical and material dynamics and structure of international service transfers were analysed on the basis of the available statistical data. The growing role of services trade in mature economies and growing importance of services export of the developing countries were presented. The author also presented the pivotal role of services in the ongoing transformation of international trade and investment model, characterized by the delocalization of service functions and the participation of services in the global value chains. The attention was also drawn to the need of measuring trade, including services trade, through the criteria of value added at every stage of production.

Keywords: international trade in services, commercial services, offshoring of services, value added, global value chains.

DOI: 10.15611/e21.2014.4.02

1. Introduction

Global economy has been changing at an unprecedented pace and services have been in the centre of this transformation. Globalization would not have been possible without the development of information and communications technologies. Global manufacturing networks could not have been created without efficient and solid transportation and logistic services. Services constitute the very base of each stage of production, from research and development, through design, engineering, financing, transport, distribution to marketing. Services contribute to the occurrence of value added and innovation.

Similarly to the goods trade, as far as services trade is concerned, the clear division into exporters and importers faded away long time ago. This characteristic

1 Goods and services are now often from “everywhere”, rather than, as they are generally considered today, from “somewhere”.
The importance of services trade in global economy

no longer operates. Nowadays, the production of services repeatedly takes place in importing countries, while foreign service suppliers generate local employment and income.

For many developed countries services constitute over 70% of GDP, while for many developing countries this share increased to 50%. With all probability, this trend will continue in the future as companies try to introduce higher value to their products and services. Moving up on the value chain is necessary to maintain profitability, and services are the key to move to its upper levels.

The article’s objective is to present the most up-to-date and the most important tendencies occurring in the international services trade. The analysis has been limited to three methods of providing services\(^2\): 1) cross-border trade – services supplied from the territory of one country into the territory of another, 2) consumption abroad – services supplied in the territory of one country to the consumers of another, 3) movement of natural persons – services supplied by nationals of one country in the territory of another. Commercial presence\(^3\) (in the form of direct foreign investments) is not included in the hereby research, due to the fact that this services trade model is not registered in the balance of payments on the current account [A Handbook...2008, pp. 5-7].

2. Services as the basis for the economic development

Processes occurring in the contemporary world economy triggered changes which embraced not only the forms of services trade transfers as a result of technological innovations and the openness of trade but also the very perception of services\(^4\). Due to the acceptance of international service transactions typology within GATS, the approach indicating the fact that services trade can take place not only on cross-border basis but also through the movement of service providers and/or service receivers, became known. The accepted model of providing services launched new and promising perspectives of negotiations concerning liberalization of service markets, both on the bilateral, regional and multilateral level.

Nowadays, services constitute the basis of economies of all developed countries. The importance of service businesses is all the more significant, as it penetrates other areas of economic activity. Therefore, the increase in the productivity in this sector has a crucial influence on the competitiveness of the entire economy [Nordas, Kim 2013]. Services, being basic inputs or intermediate goods for manufacturing and agricultural production, may contribute significantly to the economic growth,

\(^2\) Methods of providing services according to General Agreement on Trade in Services (GATS).
\(^3\) Commercial presence – services supplied through any type of business or professional establishment of one member on the territory of another.
\(^4\) Traditional international economics textbooks tended to assume that services were largely non-tradable.
mainly through the increase in efficiency. High economic profits from the trade of manufactured and agricultural products cannot be fully reached without services’ support. Similar to the effectiveness of governments and institutions, competitiveness of companies within the free market is described, to a greater extent, through the access to cheap and high-quality telecommunication, transportation, distributional, and financial services.

Nowadays, no economy can develop without the effective service infrastructure. What is more, inefficient and expensive service infrastructure may not only preclude trade transfers but also inhibit general economic growth. Effective and properly regulated financial sector leads to the transformation of savings to investments, ensuring the best funds’ location for the highest profit. Profits also come from the diversity of financial products and better risk division in the economy. The improvement of the effectiveness in telecommunications generates wide economic benefits due to the fact that this sector constitutes necessary “indirect inputs” and is essential to the knowledge circulation and diffusion. Similarly, transportation services contribute to the effective distribution of products within the country and to the ability of the country to participate in the global trade, thereby helping in the realization of benefits from the integration. The mentioned sectors possess features generating development, which is the possibility of gaining knowledge through the activity, knowledge creation, increasing diversity of products and raising their quality. In spite of the fact that those sectors are leading, there are also other ones which have great significance for the improvement of economic results. For instance, business services like accounting or legal services are important for the reduction of transaction costs; in turn, software services are the foundation for the modern economy based on information [Mattoo, Rathindran, Subramanian 2001, pp. 4,6].

Services trade may help the countries create opportunities for the development of service production in sectors in which they have comparative advantage, therefore generate workplaces, and contribute to GDP growth and development of commercial exchange. It is particularly significant for the countries isolated from the world product market due to weak transportation infrastructure and lack of the sea access. Service export may be a vital part of developing countries’ development strategies. Additionally, the importation of services may significantly improve the results by the introduction of larger competition, better practices, abilities, technologies and investment capital. The introduction of foreign service providers may cause better services for domestic consumers and improve results and competitiveness of domestic companies.

Increasing importance of services in national economies and in the international trade to a large extent stems from the increase in production of indirect services. Expensive and knowledge-demanding indirect stages of companies’ activities are

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5 Many services constitute production inputs and their inefficient production/providing operates as a tax.
more and more often passed on to specialized manufacturers. This phenomenon has resulted in the emergence of new export service sectors, which offer a great potential for the developing countries.

Servicization of economic processes which has been ongoing for half of the 20th century has turned services into the most important economic sector in the majority of countries and the most dynamically developing trade component [Kłosiński 2002, p. 13]. That caused the commencement of the post-industrial era, in which services sector plays a predominant role.

3. Services as the basis for the economic development

In 2011, value of the world services export increased by 11% to 417 billion USD, transcending the level before the crisis (385 billion USD in 2008). Overall, the share of services in the trade (on the basis of the balance of payment) was at the level of 18.6%, which constitutes the lowest value since 1990 [WTO 2012b, pp. 19, 22]. Disaggregation of products’ value helps to illustrate the importance of services in the world trade. According to World Trade Organization specialists, services constitute approximately 50% of the world trade measured on the basis of value added. This is twice as much as what is ascribed to them by the official statistics [Francois, Manchin, Tomberger 2013, p. 1].

Annual growth rates of services export noted in 2011 varied significantly between particular countries and world regions. The Commonwealth of Independent States (CIS) was the most dynamic region, with the growth rate of services export at the level of 19%, whereas South and Central America was right behind it with the growth of 13%. Europe showed signs of recovery with the annual growth at the level of 11%. Reversely, Asian economics halved its growth rate, mainly due to the slower development of transportation and other commercial services. Services export of the North America increased by 9%, while African export did not develop in the aftermath of the so-called “Arab spring”, which started at the end of 2010.

In 2011, the United States remained the major service economy, with the value of trade in services of over 976 billion USD, reaching an export surplus of 186 billion USD. The United Kingdom, classified on the third position, also obtained a positive trade balance, with 103 billion. Germany – the second largest service economy recorded a 36 billion deficiency. Among the leading emerging economies, China remained a net service importer, whereas India recorded a positive trade balance, with the export’s value exceeding the import by 13 billion USD.

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6 Developing countries benefit from the growth of importance of cross-border service providing through the so-called business process outsourcing (BPO), using its natural comparative advantage in labour-intensive services.

7 If we add in the sales the services by foreign affiliates of multinational firms, then the value of trade in services rises further.

8 Export of travel services in Egypt decreased by 30%.
Figure 1. Commercial services exports by region, 2010-2011 (annual percentage change)
Source: own elaboration based on [WTO 2012a, p. 22].

Figure 2. Leading exporters and importers in world trade in commercial services, 2011 (billion USD)
Source: own elaboration based on [WTO 2012a, p. 28].

The above data include service operations among the Member States of the European Union. Provided that the internal trade is going to be excluded and the EU, treated as one entity, the largest service exporter in the world would be the
The importance of services trade in global economy

European Union (784 billion USD, 24.7%), ahead of the United States (581 billion USD, 18.3%), China (182 billion USD, 5.8%), India (148 billion USD, 4.7%) and Japan (142 billion USD, 4.5%). Post the internal trade exclusion, the European Union would also be the largest service importer (644 billion USD, 21.1%), ahead of the United States (395 billion USD, 12.9%), China (237 billion USD, 7.7%), India (166 billion USD, 5.4%) and Japan (124 billion USD, 4.1%) [WTO 2012a, p. 29].

![Figure 3](image)

**Figure 3.** The breakdown of commercial services net exports of the European Union (EU-27) and the United States, 2010 (billion USD)

Source: own elaboration based on [WTO 2012a, pp. 148-181].

It is worth noting that the greatest service economies are simultaneously the leaders in goods trading, which constitutes a visible contrast in relation to the popular point of view in some countries\(^9\), stating, that “the country has to choose between being successful in manufacturing or services”.

From among the three extensive service subcategories, the transportation services (9%) were the slowest developing, ahead of which the remaining commercial services\(^{10}\) (11%) and travel (12%) were ranked. Slow growth in transportation services is no surprise, considering its close relation to the goods trade category, for which the second half of 2011 was the period of stagnation. The oversupply of new container ships might also have mitigated the receipts in the maritime transport services sector [WTO 2012b, p. 22].

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\(^9\) Such as Great Britain.

\(^{10}\) Other commercial services include the following: communications services, construction, insurance services, financial services, computer and information services, royalties and license fees, other business services, personal, cultural and recreational services.
Table 1. World exports of commercial services, 2000-2011 (billion USD, annual percentage change)

<table>
<thead>
<tr>
<th></th>
<th>Value</th>
<th>Annual percentage change</th>
</tr>
</thead>
<tbody>
<tr>
<td>Commercial services</td>
<td>4 170 10    11 11 8</td>
<td></td>
</tr>
<tr>
<td>Transportation services</td>
<td>860 16   9 11 7</td>
<td></td>
</tr>
<tr>
<td>Travel</td>
<td>1 065 9     12 8 7</td>
<td></td>
</tr>
<tr>
<td>Other commercial services</td>
<td>2 240 9   11 13 10</td>
<td></td>
</tr>
</tbody>
</table>

Source: own elaboration based on [WTO 2012a, p. 146].

The relevance of the respective subcategories significantly varies among the regions. In North America, Europe and Asia, the vast export share falls within other commercial services, which constituted over half of the services export in 2011. The largest share in this subcategory was made by other business services, royalties and license fees. Travel represented 47.3% of service trade in Africa, 44.3%\(^\text{11}\) in the Middle East and from 36.3% in South and Central Americas. For The Commonwealth of Independent States, transport services were the most important subcategory, constituting 38.8% of this region’s export in 2011.

Table 2. Commercial services exports by category and by region, 2011 (mld USD)

<table>
<thead>
<tr>
<th>Region</th>
<th>Transportation services</th>
<th>Travel</th>
<th>Other commercial services</th>
</tr>
</thead>
<tbody>
<tr>
<td>Africa</td>
<td>24</td>
<td>40</td>
<td>21</td>
</tr>
<tr>
<td>North America</td>
<td>93</td>
<td>179</td>
<td>400</td>
</tr>
<tr>
<td>South and Central America</td>
<td>29</td>
<td>47</td>
<td>54</td>
</tr>
<tr>
<td>Asia</td>
<td>239</td>
<td>291</td>
<td>559</td>
</tr>
<tr>
<td>Middle East</td>
<td>28</td>
<td>51</td>
<td>35</td>
</tr>
<tr>
<td>Europe</td>
<td>409</td>
<td>437</td>
<td>1134</td>
</tr>
<tr>
<td>European Union (27)</td>
<td>373</td>
<td>377</td>
<td>1031</td>
</tr>
<tr>
<td>Commonwealth of Independent States</td>
<td>37</td>
<td>22</td>
<td>36</td>
</tr>
</tbody>
</table>

Source: own elaboration based on [WTO 2012a, pp. 147, 153, 158].

Travel and other business services’ receipts constituted half of the world’s service export in 2011; transport services – 20.6%, 2.1% less than in 2005. The export of the financial services constituted 7.4% of global service export. Next, the royalties

\(^{11}\) This share had increased from 36.3% in 2005.
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and license fees – 6.4%, and computer and information services – 6%, were ranked [WTO 2012a, p. 139].

Figure 4. The breakdown of world exports of commercial services, 2011 (mld USD)
Source: [WTO 2012a, pp. 147-178].

4. The growing role of trade in services in mature economies

Services are becoming increasingly important for the trade of mature economies and although there are some concerns regarding the negative impact of offshoring, these countries generate a growing surplus in services trade, especially in knowledge-intensive services (0.7% GDP in 2008). Export of labour-intensive services, particularly of travel and transportation services, has increased respectively by 5% and 6% per annum in the years 2000-2009. However, export of services based on knowledge, which include royalties and license fees, financial services and other business services, has grown twice as quickly, i.e. by 11%. Export of business services of mature economies is expected to continue to grow and it may even exceed the significant increase in exports of emerging markets. For exports of mature economies, the most promising categories of services include architectural and engineering services, technical advice, as well as legal, management and accounting services [Roxburgh, Manvika, Dobbs, Mischke 2012, pp. 25, 26].

12 Here – a group of countries including the old countries of the EU (EU-15), the United States and Japan.
In 2009, services accounted for one-fourth of mature economies’ exports, which corresponded to about 16 million jobs. The share could rise to one-third by 2030 if services remain competitive. A study carried out by McKinsey Institute defined two possible scenarios: “high-competitiveness”, in which case export of services grows along with the global demand for them, and “low-competitiveness”, in which export of services grows along with the global demand for services from mature economies only. According to these scenarios, by 2030 the export of mature economies’ services will represent from 6 to 11% of their GDP. This is going to be achieved without making the assumption that trade grows faster than global demand. This assumption has been made in the past, e.g. in the majority of business and financial issues [Roxburgh, Manvika, Dobbs, Mischke 2012, p. 25].

While the 25 per cent share of services in exports seems to be much higher than many people expected, this ratio is in fact even more favourable if one takes into consideration the value added embedded in exports. A study of the German economy, 81% of which exports is from manufactured goods, showed that those goods contained around 23 per cent service inputs, and that their production is almost in one-third based on the imported content. Service exports, in contrast, come almost exclusively from domestic value added. On the whole, exports of value added services account for 13 per cent of German GDP, which is almost equal to the 15 per cent of GDP exports of manufacturing value added. In case of the United States and Great Britain, value added from service exports, both direct and embedded in goods exports, has already exceeded the value that manufacturers add to total exports [Roxburgh, Manvika, Dobbs, Mischke 2012, p. 28].

5. Growing importance of exports from developing countries

The role of services reform in developing countries is widely recognized. The past two decades have seen exciting changes with developing countries emerging as exporters of services. India’s success is well known: exports of software and business process services contributed about 33 per cent of India’s exports in 2007-2008. Less well known is that a large number of other developing countries are Brazil, Costa Rica and Uruguay export professional and information technology-related services. Chile exports distribution and transportation services. Mexico exports communication and distribution services. Kenya, Morocco, South Africa and Tunisia provide professional services to Europe, and the Arab Republic of Egypt has developed a world-class call centre sector. Exports of health services (known as health tourism) are successfully provided by a diverse group of countries in Asia (India, Thailand), as well as by countries in Latin America and the Caribbean, the Middle East, and North Africa. Capital-intensive and managerially complex services are also part of the story. Providers of construction services from developing countries are among the top 225 international contractors. Firms in developing countries engage in trade across a variety of sophisticated environmental service segments as well as in financial and telecommunication services.
also successfully exporting services, both within their own regions and to high-income countries [Exporting Services... 2012, pp. 25-26].

During the years 1980-2010, developing countries service exports grew faster than those of the developed countries for the period as a whole (9.7 per cent compared to 7.7 percent) and for the last twenty years; their growth was only marginally lower in the 1980s. The average growth of service exports was about 9.6 per cent for high-income countries, 7.2 per cent for low-income countries, and 10.3 per cent for lower-middle-income countries. The share of developing countries in exports of world services increased from 16.2 per cent in 1980 to 26.4 per cent in 2010. The developing countries export not only traditional services, such as transport and tourism, but also modern services, especially skill-intensive services such as computer and information services and other business services [Michalopoulos, Ng 2013, pp. 15-20].

The characteristic features of service exports from developing countries include the following [Exporting Services... 2012, pp. 26-27]:

- Such exports are not concentrated in a few areas but already span a wide variety of services.
- Developing countries have diversified their service export markets: the average developing country is reported to have 33 export markets.
- South – south service trade is important, with developing countries accounting for two-thirds of the service export markets of other developing countries.
- The most widely used modes of supplying services from developing country are consumption abroad and movement of natural persons. Recent studies suggest that the importance of cross-border exports from developing countries is also increasing.
- The success that some countries achieved in service export seems not to be linked with their performance in trade in goods or their industrial development. In fact, exports of services from many developing countries are growing faster than their exports of goods, which contributes to the diversification of their exports.

In order to explain the determinants of developing countries’ participation in the export of services one should point out the role of factors such as [Exporting Services... 2012, pp. 28-42]:

- A country’s factor endowments, especially of human capital, including skills and entrepreneurial ability.
  A number of service sectors, ranging from business services to banking, and telecommunications, are significantly more skill intensive than most goods production. Endowments of human capital can, therefore, be a critical determinant of output and export of services.
- Infrastructure, especially telecommunication networks that facilitate the delivery of services.
  Telecommunication growth is the most powerful symbol of vitality of the service sector, while at the same time being critical for further development of other
services. Modern ICT has reduced the cost of delivering many cross-border services from infinite to virtually zero. Therefore, electronic infrastructure would understandably increase service trade. However, the state of the economy-wide electronic infrastructure does not by itself explain the success of developing countries in exporting services.

- Institutional environment.
  Certain institutions may play a significant role in the development of service sectors for three reasons: informational problems are more acute in many intermediation and knowledge-based services\(^{14}\), natural monopoly or oligopoly is a feature of the “locational” services (which require specialized distribution networks)\(^{15}\), and relationship-specific investments must be made by both consumers and suppliers in customized services\(^{16}\).

6. Offshoring of services – growing possibilities

Offshoring of services\(^ {17}\) has rapidly increased particularly over the last decade. While this phenomenon constitutes a relatively small share of the world trade, more and more enterprises in the growing number of sectors and countries embrace the possibility of specialization and internationalization of services created by the development of information and communications technology and the liberalization of trade.

Offshoring may be realized internally by means of transferring the activities of mother enterprises to foreign affiliates (corporate owned offshore, stricte sense offshoring, captive offshoring), and may also incorporate international outsourcing of services contracted to independent foreign service providers (offshore outsourcing, international sourcing) [UNCTAD 2004, p. 147]. The scope of services which fall under offshoring continues to expand. There is no widely accepted categorization of services which may be transferred abroad. However, the literature often contains a division between the information technology (IT) services and services activated thanks to the information and communication technology or else, referred to as business services (ICT-enabled services). The last group consists of service of front office, back office type, and offshoring of business processes based on knowledge (knowledge process outsourcing).

\(^{14}\) The existence of credible regulators provides consumers with vital reassurance, through certification and licensing mechanisms, about the quality of the services.

\(^{15}\) Independent regulators are needed to promote competition in intermediate or final service markets (to ensure that monopolistic suppliers do not exploit consumers or undermine market access by charging prohibitive rates for access to the essential facilities they control).

\(^{16}\) Unlike most goods, services tend to be customized, which means both the supplier and the consumer need to make relation-specific investments. Therefore, contract-enforcing institutions assume greater importance for services than they do for goods.

\(^{17}\) Offshoring relates to the relocation of the activity abroad while outsourcing corresponds to the external provision by an independent firm.
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Table 3. Categories of services affected by offshoring

<table>
<thead>
<tr>
<th>Service category</th>
<th>Example of service activities</th>
</tr>
</thead>
<tbody>
<tr>
<td>IT Services</td>
<td>Programming, systems integration, application testing, IT infrastructure management and maintenance, IT consulting, software development and implementation services, data warehousing, and content management and development</td>
</tr>
<tr>
<td>ICT-enabled services</td>
<td>Call centres and customer contact centres (inbound and outbound)</td>
</tr>
<tr>
<td></td>
<td>Data entry, human resources, payroll, finance and accounting, procurement, transcription</td>
</tr>
<tr>
<td>Front office services</td>
<td>Financial analysis, data mining, engineering, research and development, insurance claims processing, architectural design, remote education and publishing, medical diagnostics, journalism</td>
</tr>
<tr>
<td>Back office services</td>
<td>KPO</td>
</tr>
</tbody>
</table>

Source: [CeBIT 2010, p. 7].

Offshoring of services constitutes a serious challenge and is a substantially more complicated process than outsourcing of manufacturing processes. The comparison of costs of labour between the sending and receiving country is an important factor which determines a delocalization of certain activity – both service related and manufacturing related. However, offshoring of services brings about many challenges which do not exist in case of the offshoring of production activity. These challenges are the result of differences between services and goods. Distinctive features of services, such as the client involvement within the process of service provision, high degree of service adjustment to clients’ needs, the need of proximity between the supplier and the customer raise the challenge of offshoring in many areas.

Contrary to the manufacturing where products are material and their specification precise, many service processes contain non-material elements which hamper their specification and standardization. Language and cultural differences which accompany the offshoring cause the intensification of this issue, which in turn may lead to the misconception of the requirements of the entity that shifts the service activity to another country. Furthermore, the non-material nature of services makes objective assessing the outcome as well as monitoring of the quality of the service harder [McIvor 2010, pp. 37-39].

As opposed to the manufacturing processes where production and consumption can be separated, the customer is an integral part of the service process, which means, that a thorough attention has to be given to managing the interface between production and consumption, especially when a producer is located far from a client. Despite the fact that the development of information and communications technology and the development of project management techniques allowed the enterprises to separate service consumption from production, offshoring of services, such as for instance the software development, requires a significant interaction between a supplier and a client throughout the production and the consumption stages of the service, which
in turn creates the possibility of change to the quality of the service. Even in case of highly standardized services, maintaining stability concerning the quality of service is extremely difficult [McIvor 2010, pp. 37-39].

In 2010, the market for information technology outsourcing (ITO) worldwide was reported at 270 bln USD and for business process outsourcing (BPO) – 165 bln USD. Recent estimates predict that between 2011 and 2014, ITO growth will be 5 to 8 per cent per annum and BPO growth will be 8 to 12 per cent per annum. Spending will continue to rise in all global sourcing markets, but BPO market size worldwide will overtake the ITO market within the next five years. BPO expenditures will be in areas such as the human resource function, procurement, back office administration, call centres, legal, finance and accounting, customer-facing operations, and asset management. In addition, industry analysts have expected a huge growth in KPO, which is directly related to offshore suppliers’ moving up the value chain [Oshri, Kotlarsky, Willcocks 2011, pp. 17-18].

In line with this trend, a highly competitive global services market presents opportunities for countries that can offer the right mix of costs, skills, and reliable service. By 2011, over 125 offshore locations were providing ITO and BPO services. Together with India, which in 2008 attracted some 65 per cent of ITO and 43 per cent of the BPO market, Brazil, Russia and China (BRIC) are considered the most attractive sourcing destinations for ITO and BPO. This is mainly because of the scale of services, available skills, and the maturity achieved with regard to sourcing activities [Oshri, Kotlarsky, Willcocks 2011, p. 62].

Developing countries other than India and China are becoming players in the IT services market. Many US clients already use Central America suppliers for Spanish-speaking business processes such as help desk, patient scheduling, and data entry. Synchronous time zone is another favourable factor for US firms looking to Central or South America for sourcing. In Western Europe, organizations will increasingly source IT and business services to providers in Eastern Europe. In Africa too, many countries are actively seeking to become players in the global ITO and BPO markets [Oshri, Kotlarsky, Willcocks 2011, pp. 64-65].

7. Services versus global value chains

Today, most goods and a growing share of services are “made in the world”, with different firms and countries specialising in the specific functions and tasks that

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18 Poor service quality in customer contact services can alienate existing customers, and also hinder the company’s attempts to attract new customers. Indeed, this has led some companies in developed economies, such as Aviva and Dell, to advertise that they use domestic call centres, as a result of poor perceptions among customers of foreign call centres.

19 For example, the Visegrad-Four countries (Czech Republic, Hungary, Poland, and Slovakia) offer Western European firms closer proximity, fewer time zone differences, and lower transaction costs than Asian alternatives.
collectively constitute a global value chain (GVC). The fragmentation of production across countries is not a new phenomenon. What is new is its increasing scale and scope. Firms today can disperse production across the world because trade costs have decreased significantly, mainly owing to technological advances. Cheaper and more reliable telecommunications, information management software and increasingly powerful personal computers have markedly lowered the cost of co-ordinating complex activities within and between companies over long distances.

Services are determined, though often omitted, part of the dynamically developing phenomenon of global value chains. Services also play the key role in the ongoing transformation of the international model of trade and investment; they enable the development of manufacturing value chains and create their own services value chains.

Services, however, are less likely to be divided up than manufactured products, in particular when they require face-to-face contact between a provider and a consumer.

Services are the key to the efficient operation of global value chains. Global value chains rely heavily on logistics and information and communications technologies and therefore on efficient network infrastructures and complementary services. There would be no global value chains if well-functioning distribution, transport, logistics, finance, insurance, communication and other business services did not move goods and coordinate production along the value chain. Moreover, knowledge-based services often help to differentiate products for specific markets and consumers, adding value in the process [OECD, p. 26].

Some observers describe the development of global chains not as the linear process, but rather as the “smiling curve” (Fig. 5), where the centre of value creation – the production or the assembly – is surrounded from both sides by service activities of higher quality [WEF 2012, p. 21]. In the age of globalization the key competitive challenge for the enterprises is the shift of the value chain to higher levels: from production and assembly to design, innovation, research and development, logistics, marketing and branding. For this reason, services – non-material goods – become a more and more important component of the global value chains.

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20 Global value chains identify all aspects of the production of goods and services and measure the value added at each stage.

21 Services such as transport, telecommunications, logistics, distribution, marketing, research and development form a driving force and the necessary link at every stage of the value chain within the production industry.

22 Today, more than half of the world’s manufacturing imports are intermediate goods (primary goods, parts and components, and semi-finished products), and more than 70% of the world’s services imports are intermediate services, such as business services.

23 Notably most personal services.

24 The concept of “smiling curve” was created by Stan Shih, founder of Acer.
Services value chains are in the assumption similar to those manufacturing ones, although they may differ in the way they operate. An example of the services value chain, being the subject of offshoring (Fig. 6) encompasses information technologies, services based on knowledge and business services, for which the demand has dramatically increased over the last two decades, mainly in the USA, Canada, EU and some Asian and Pacific countries. The companies from the countries which provide services indicate tendencies of specialization at various stages of this process. Developing countries which wish to take over share of service value chains find it easier to grasp one or more activities within the value chain, than try and compete in the entire spectrum.

Within the value chain of services being the subject of offshoring the entire sector has been divided into services which may be delivered in all branches (horizontal services) and those specific to a certain branch (vertical services). Within the former group, all activities are related to the support of general business functions, while the second one contains activities, which may be shifted abroad by various branches, but that are not related to general business functions and thus require specific know how.

Within the scope of horizontal services the information technologies form a low, medium and high segment of the value chain; business services encompass activities in the low and medium segment, while services based on knowledge are considered as the highest segment. The closeness to the central activity of individual sub-

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The value of individual activities is correlated to the human capital (level of education); services of lower value added are performed by persons with lower number of years of formal education.
The importance of services trade in global economy

Figure 6. Offshore Services Value Chain

Note: This diagram captures the selected vertical services – specific for particular industry. Each industry has its own value chain. Within each of these chains, there are associated services that can be offshored. This graphical depiction of vertical activities does not imply value levels. Each industry may include ITO, BPO and advanced activities.


categories within each of the three segments is indicated by the component of the higher added value, i.e. research and development of software add more value than network management in the value chain of information technology. Similarly, finance and accounting add more value than documentation management within the value chain of business services.

8. Conclusions

One of the most significant development patterns within the modern world economy is a constant increase in the share of services within the creation of GDP, employment and trade – both for the developed and developing countries.

The fastest developing component of trade in services has been that of services facilitating the functioning of global value chains: among others communication
services, financial, computer and IT services as well as other business services. Throughout the period of fifteen years between 1995 and 2010 the significance of the category “other commercial services” has increased from 40 to 53% of overall trade with services.

The OECD-WTO [http://www.wto.org/] estimates of trade in value added highlight the importance of services. Services comprise about two-thirds of GDP in most developed economies. However, in terms of gross exports, services typically account for less than one-quarter of total trade in goods, but in terms of value added they contribute nearly or just over 50% in France, Germany, Italy and the United States, almost 60% in the United Kingdom and nearly 30% in China. Luxembourg, Greece and Ireland have the highest shares of services in gross exports26. Countries that rely more on exports of natural resources, such as Brazil, Canada or the Russian Federation, and important manufacturing economies, such as Mexico, China or Korea, have a relatively low share of services value added in total exports. In most countries, the contribution of services increased over time. Services make a significant contribution (typically one-third) to all manufactured goods and are provided by both foreign and domestic service providers. In France, for example, over half of the domestic value added generated in producing transport equipment originates in the French services sector [OECD, pp.17-18].

Efficient services help connect economies to global networks. Investment in logistics services – the organisation and management of international shipment operations and the tracking and tracing of transport flows – helps enhance trade flows. High-quality logistics affect trade more than distance or transport costs27. Likewise, the development of communications and information services as “enablers” leverages countries’ integration in global value chains. These services may even help transform emerging and developing economies into centres of offshore services, as is the case for India and Mauritius.

References


26 Among 40 countries included in the report.
27 Recent OECD results indicate that every extra day needed to have ready goods for export and import reduces trade flows by around 4%.

**ZNACZENIE HANDLU USŁUGAMI W GOSPODARCE ŚWIATOWEJ**

**Streszczenie:** Celem artykułu było zaprezentowanie najistotniejszych tendencji w międzynarodowym handlu usługami. Zmiany w strukturze geograficznej i rzeczowej międzynarodowych przepływów usługowych zostały przeanalizowane w oparciu o ostatnie dostępne dane statystyczne. Przedstawiono rosnące znaczenie handlu usługami dla gospodarek zarówno rozwiniętych, jak i rozwijających się. Wskazano także na kluczową rolę usług w procesie transformacji obecnego modelu handlu i inwestycji międzynarodowych, charakteryzującego się deokspatrizacją funkcji usług oraz uczestnictwem usług w globalnych łańcuchach wartości. Zwrócono również uwagę na potrzebę pomiaru handlu międzynarodowego, w tym wymiany usługowej, na podstawie wartości dodawanej na poszczególnych etapach produkcji.

**Słowa kluczowe:** międzynarodowy handel usługami, usługi rynkowe, offshoring usług, wartość dodana, globalne łańcuchy wartości.