Exports of Services, Exports of Goods, and Economic Growth in Developing Countries

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Abstract

This paper explores quantitatively the nexus between GDP growth and the two components of total exports, focusing particularly on the role of services exports in developing and transition countries. The Introduction exposes some of the shortcomings and methodological problems affecting BOP statistics on international trade in services, and briefly describes the main trends in international trade in services. Econometric analysis in the following sections shows that, in the long run, services exports do have a positive impact on GDP growth in developing countries. Yet, for developing countries, the services exports/GDP growth nexus is weaker than in the case of developed countries. Moreover, in most developing regions, the growth-enhancing impact of exports as a whole appears to have declined in the 1990s, although this decline appears to be due more to the merchandise component of exports rather than to the services component. In the conclusions, a tentative explanation for the aforementioned results is proposed. Export-oriented services activities in developing countries are often under the control of foreign economic agents, and they tend to be poorly integrated to the rest of the domestic economy. Thus, their potential as engines for growth is relatively weak. Moreover, many previously inward-oriented developing countries, under conditions of financial duress, diverted resources towards exports as a goal per se, rather than in the framework of a comprehensive long-term growth-maximizing strategy. Such opening-up reforms ended up facing
diminishing returns.

- **JEL classification:** F15
- **Keywords:** Export-oriented services, Growth, Developing Countries

### I. Introduction

This introductory section, based on Gabriele (2004), examines briefly the limitations of presently available official statistics on international trade in services and sketches its main trends during the last two decades of the XXth century.

The main reasons for the above-mentioned statistical inadequacy are three, all of them stemming from the peculiar nature of services as tradable economic activities. The most important is that the GATS typology, based on four modes of supply, is not matched so far by existing statistics, especially with respect to mode 3 (commercial presence). As a result, most statistics on trade in services fail to capture local sales of services by foreign firms. A fortiori, they do not distinguish exports of services carried out by nationals or by foreign enterprises, respectively.

The other two reasons stem from a divergence in classification criteria between existing statistics on trade in services and the GATS commitments (mostly based on the GNS classification\(^1\)), and more broadly from the impossibility (so far) of matching statistically the GATS distinction among the four modes of supply (see WTO 1997, part II).

Statistical coverage on trade in services is improving, and the Inter-Agency Task Force on Trade in Services Statistics is developing a common manual which will represent a significant step forward in striving to improve coverage and accuracy of services statistics. However, statistical reporting on trade in services is not likely to match the breadth and precision of statistics on merchandise trade in the foreseeable future, due, among other things, to methodological problems, a major one being the difficulty in distinguishing between price and volume data in services production and trade\(^2\) (see WTO 2000, para V). The evaluation of

\(^1\)The GNS classification is largely based on the UN-CPC classification but deviates from the latter in telecommunication, financial, and transport services.

\(^2\)It is more difficult than in the case of merchandise trade to determine to what extent an increase in trade for a particular services sector is due, respectively, to: changing in relative prices; diverging variations in the exchange rate and in inflation among trading partners; improvements in product quality; changes in infra-sectoral product composition; "true" quantitative increases in trade volumes (WTO 2000, p.17).