

Trade in services and the coronavirus: many developing countries are at risk

Max Mendez-Parra
30 March 2020

Key messages

- The pandemic, travel bans and lockdowns are reducing demand for transportation and travel services. Communications and internet commerce services are increasing.
- Exports of services in many developing countries are above the global average (as a share of total trade), putting them at even greater risk.
- Measured exports of services tend to be concentrated in travel and transportation, which are already in decline.
- Ethiopia, Mauritius and Morocco may be particularly hit through this channel, as 44%, 33 and 25%, respectively, of their combined goods and services exports are vulnerable. Travel exports in Cambodia represent 17% of GDP.

Introduction

The coronavirus pandemic has already led to major economic and social impacts across the world. In many developing countries, [the fall in commodity prices is having a very strong effect](#). Moreover, the fall in demand is affecting other exports, such as those of manufactures.

Trade in services appears to be being overlooked in considerations of the implications of the lockdowns on economies. Lack of good data makes it harder to understand the importance of services in trade.

This note discusses how the lockdowns could affect trade in services. It also assesses the vulnerability of many developing countries based on the importance of services in their exports and on the composition of the most affected sectors in their exports.

How is trade in services affected?

The pandemic is leading to direct and indirect effects on trade in services.

Transportation: The pandemic, border closures and economic lockdown have created a perfect storm in airlines, shipping companies and other providers of transport. Globally, air [passenger revenues are expected to fall by 44%](#). Even assuming that lockdowns are limited to three months, global airline capacity will be down by [10% in the fourth quarter of 2020](#).

The fall in goods traded is reducing the demand for shipping and logistical services in ports. As a result of the fall in demand, the Baltic Dry Index, which measures global shipping costs, has fallen by 63% since December.

Travel: The lockdowns, along with fear of infection, are keeping business and tourist travellers at home.

[International tourism receipts could fall between \\$30 and \\$50 billion](#). Even when the lockdowns are lifted, tourists may be reluctant or unable to resume their travel plans. Moreover, while lockdowns in some countries may be lifted, new lockdowns could be put in place in others.

Communications and ICT services: Lockdowns are generating larger demand for communications, computer and information services. Homeworking, distance learning, entertainment and people's need to communicate with relations have [increased internet the by 50%](#).

Business services: The economic lockdown is reducing demand for services provided to companies. This covers a wide range of consulting services for sectors that have virtually stopped all activity. Some services are being provided remotely and virtually.

Other services: It is unclear how the lockdown will affect a wide group of services, including financial, insurance and government services. The fall in global consumption and investment is likely to affect demand for imported financial services. At the same time, there is likely to be an increase in the use of virtual payments as a consequence of the increase in digital transactions. In particular, the fall in construction activities will decrease the flow of remittances on which many families rely, as well as affecting migrant workers who have been stranded.

The indirect effects are associated with the services embedded in goods exported. These could include services use as an input in the production process (e.g. design) or those that provide an essential part of the product experience (e.g. navigation software in a car).

The servicification of production processes reflects the result of fragmentation of production into tasks (e.g. assembling). As goods exports fall and production is scaled down, demand for a wide range of tasks and services is also

affected. [Taken together, direct and indirect exports of services in the EU \(also called mode 5\), could represent 18% of total exports.](#)

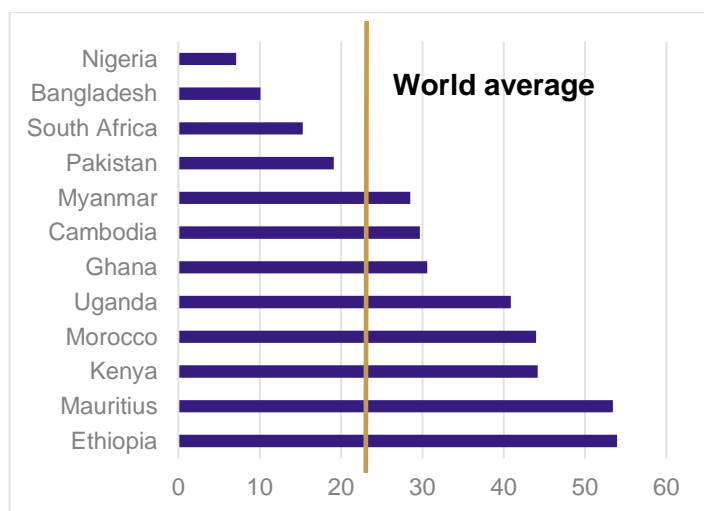
How vulnerable are developing countries?

The share of services in global trade has increased steadily in the past 50 years. It currently represents 23% of total combined goods and direct services trade. For many developing countries, this share may be higher than 50%.

Figure 1 shows that for Ethiopia and Mauritius, services represent more than 50% of total exports, but the share is above 30% in many other countries. Only large economies such as Nigeria or Bangladesh have a low share.

This suggests that countries need to consider other effects, in addition to the effect that the fall of commodity prices will have on their foreign currency income.

Figure 1. Share of services in total exports, average 2014–2018 (%)



Source: Own elaboration based on UN Comtrade and UNCTAD

The domestic services value added in goods exports (to account for the indirect effects) in low-income countries is, on average, [around 10% of the value added exported.](#) Although the effect of the fall is likely to be accounted for in goods, a significant part will be felt in the services sector.

Transportation and Travel are the services most likely to be affected. Figure 2 highlights the size of these sectors in the services exports of the top developing country services exporters¹. Cambodia, Mauritius and Morocco, among others, appear to be significantly affected, as the majority of their services exports originate in sectors expected to be negatively affected by the lockdowns. [Ethiopia is also vulnerable, given the importance of its airline as a generator of foreign income.](#)

¹ [Small and vulnerable states show higher shares of travel services in their exports](#)

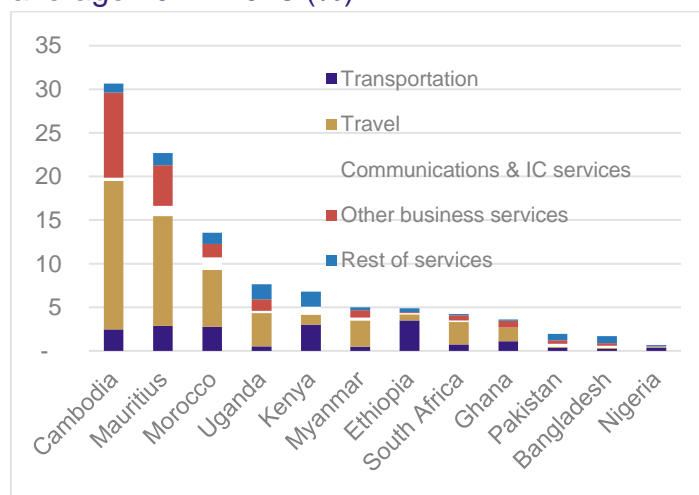
Services that may expand (e.g. communications) tend to represent a small share in the exports of these countries. Therefore, they are unlikely to offset the negative effects.

The combination of a high share of services in exports and a high composition of severely hit services in the exports suggests that Ethiopia, Kenya and Mauritius will suffer, as services represents more than 25% of their combined goods and services exports compromised (adjusting for a potential expansion of communications services). Ethiopia appears very vulnerable; Pakistan is the least vulnerable.

Final comments

The multiple lockdowns are affecting trade all over the world. In addition of reduced commodity prices and volumes of exported manufactures, developing countries are seeing impacts in their services sectors.

Figure 2. Services exports as a share of GDP, average 2014–2018 (%)



Source: Own elaboration based on UN Comtrade and World Development Indicators

In particular, developing countries tend to specialise in the provision of travel services (e.g. tourism), which has been directly hit by the travel bans and lockdowns. [The sector will take time to recover.](#) Transportation is also at high risk.

Given the lack of reliable data on services, we present a biased picture of the effect of the coronavirus. This suggests that other countries, for which no good data is available, may be among the most affected.

Given the labour intensity of the services sector, the effects are being felt immediately by the people employed in these sectors. In a context of structural vulnerability, the pandemic is introducing additional urgency to supporting the economies of these countries.