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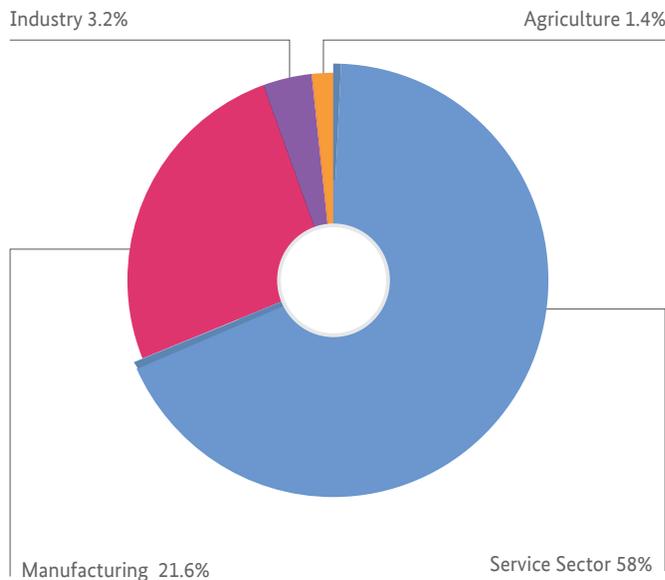
## What is trade in services?

Trade in services refers to transactions of intangible items involving the fields of business and professional services, communication services, finance services, etc. The service sector plays a pivotal role in economic growth, competitiveness, and poverty reduction. Over the past 20 years, trade in services has become the most dynamic segment of world trade, growing more quickly than trade in goods. Trade in services constitutes the largest sector in the global economy, accounting for 70% of the global GDP, 60% of the global employment and 46% of the global exports measured in value-added terms.

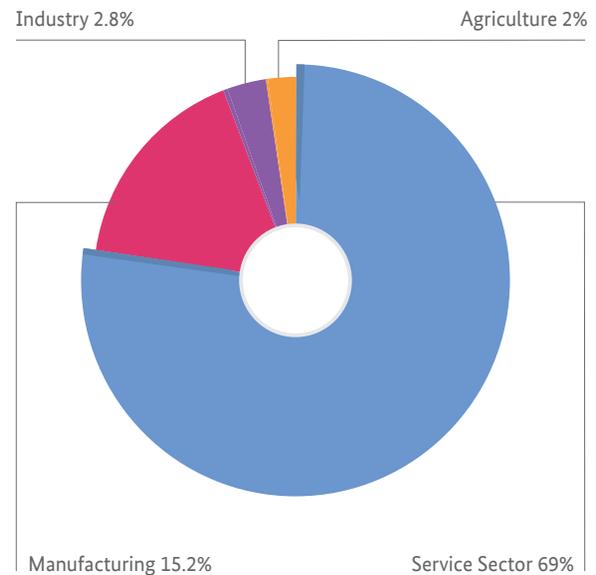
Characteristics of Services
Intangible
Non – storable
Intermediate
Protected behind borders
Highly regulated

### Rise of Service Sector

Composition of GDP in 1995



Composition of GDP in 2015



In the world's context

Source: World Bank, World Development Indicators

The service sector is rising mainly due to two reasons: Firstly, due to the progress in information, communication and technology and secondly due to the domestically produced services are also emerging as vital inputs to the production of traded goods and

services. Due to this, international trade in service has become a catalyst for expanding exports and providing opportunities to not only for developed nations but also for Least Developed Countries (LDC), such as Nepal.

Commercial services such as financial, communication, and business and professional services have emerged as particularly dynamic. WTO statistics show that the share of developing economy services export increased from 24% in 2005 to 32% in

2015, and the share of LDCs in global services export increased from 0.4% in 2005 to 0.8% in 2015. In the context of Nepal, the service sector is growing currently at 5.50 per cent annually.

## General Agreement on Trade in Services

The WTO's General Agreement on Trade in Services (GATS) remains the only set of multilateral rules covering international trade in services. It identifies four different ways, or "modes", of supplying

services. The GATS covers all services, with the exception of "services provided in the exercise of governmental authority" and the bulk of air transport services.

GATS Service Sectors		
<b>Business and professional services, including</b> <ul style="list-style-type: none"> <li>Accounting services</li> <li>Advertising services</li> <li>Architectural and engineering services</li> <li>Computer and related services</li> <li>Legal services</li> </ul>	<b>Communication services</b> <ul style="list-style-type: none"> <li>Audiovisual services</li> <li>Postal and courier services</li> <li>Telecommunications</li> </ul>	<b>Construction and related services</b> <b>Distribution services</b> <b>Educational services</b> <b>Energy services</b> <b>Environmental services</b> <b>Financial services</b> <b>Health and social services</b> <b>Tourism services</b> <b>Transport services</b>

## How are services traded?

The GATS defines four modes of supply:

### Mode 1

Covers services supplied from one country to another (for example, call center services)

### Mode 2

Covers consumers or firms making use of a service in another country (for example, international tourism)

### Mode 3

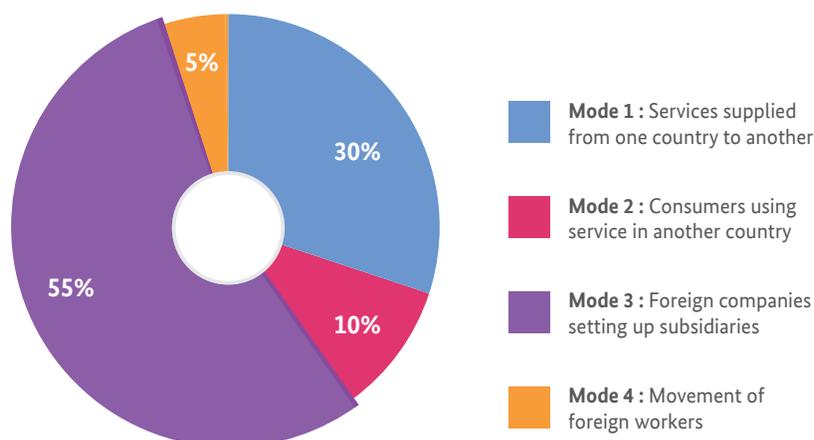
Covers a foreign company setting up subsidiaries or branches to provide services in another country (such as a bank setting up a branch overseas)

### Mode 4

Covers individuals travelling from their own country to supply services in another (for example, a consultant travelling abroad to provide an IT service).

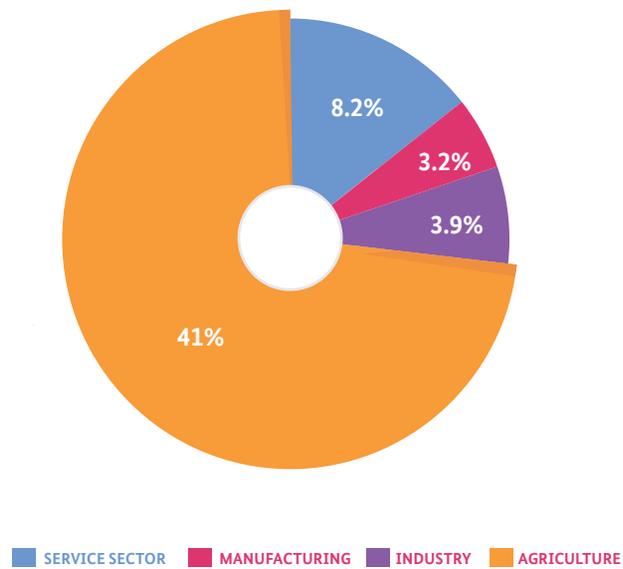
Mode 2 is by far the most liberalized mode in terms of commitments by WTO members. This is mostly due to governments being less likely to restrict the movements of citizens outside domestic borders (e.g. tourists). Mode 1 is not often committed, mostly because it is impossible for many services to be supplied remotely (e.g. construction services), while mode 3 is more open, reflecting its crucial role in driving the international supply of services, transferring know-how and improving the capacity of economies to participate in global value chains.

## Service traded via mode of supply in 2014



## Service sector in Nepal

### Composition of GDP in 1995

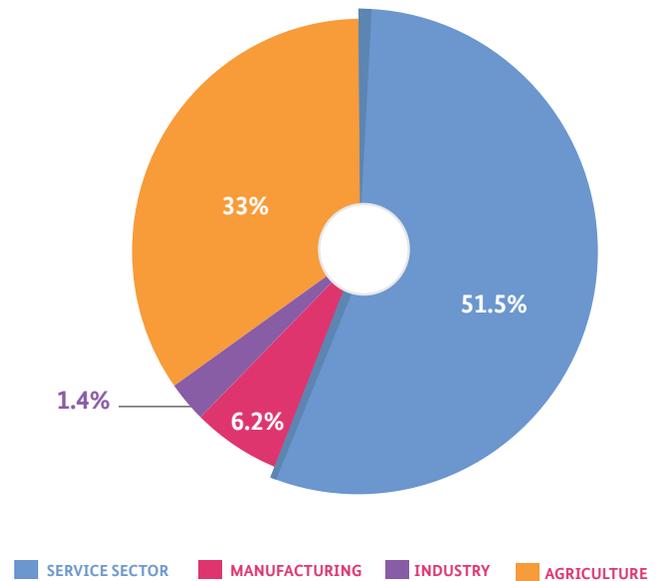


Source: World Bank, World Development Indicators

Service sector accounts for 52 per cent of the Nepal's GDP, playing an instrumental role in the economy. The service sector has also been prioritized by the Government of Nepal which is reflected in the Trade Policy 2015 as well as the Nepal Trade Integration Strategy 2016. Out of 12 products prioritized by the government for export promotion, 3

Sources: Trade in Services, Published by WTO2014; The World Bank; Economic Survey FY 2015/16, Published by Ministry of Finance 2016

### Composition of GDP in 2015



comprise service sector: skilled and semi-skilled professionals at various categories; IT, BPO and IT engineering; and tourism. Remittances for instance contribute to 27 per cent to the GDP while Tourism contributes with 2.1%. With the advancement in the technology, services will represent the most dynamic segment of international trade in Nepal.

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