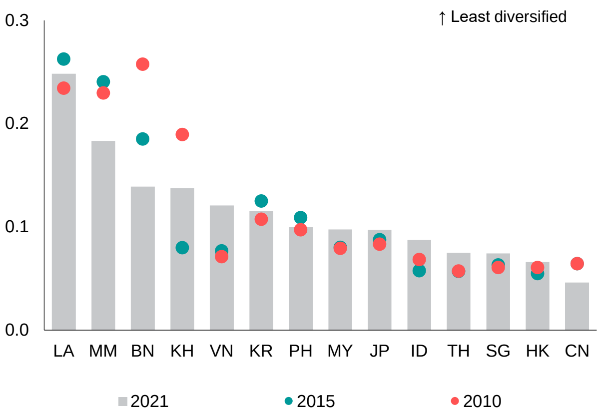
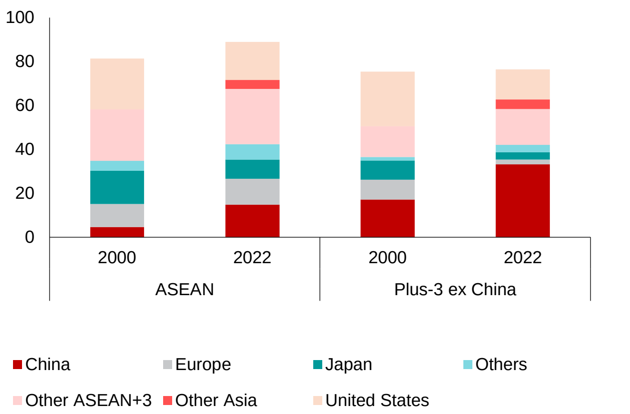
that are essential to the region's future growth—such as for clean energy transition and digitalization—suggests that ASEAN+3 economies could be facing even high(er) concentration. The shift to clean energy and electric vehicles especially will drive a huge increase in requirements for critical minerals (AMRO 2023). Yet, substantial portions of critical mineral supply chains are currently concentrated in a few economies, and the complexity of restructuring suggest that many of these are likely to remain concentrated in the medium to long term (International Renewable Energy Agency 2023). Unfortunately, these supply chains are also among the most vulnerable to geopolitical risks, such as those arising from resource nationalism.

Figure 2.63. ASEAN+3: Export Market Concentration, 2021
(HH Index)



Source: World Trade Integrated Solutions, World Bank; AMRO staff calculations.
Note: BN = Brunei; CN = China; ID = Indonesia; JP = Japan; KH = Cambodia; HK = Hong Kong; KR = Korea; LA = Lao PDR; MY = Malaysia; MM = Myanmar; PH = the Philippines; SG = Singapore; TH = Thailand; VN = Vietnam. For ease of reading, the Herfindahl-Hirschman (HH) index values are transformed to range from 0 to 1 in this chart.

Figure 2.64. ASEAN+3: Top 10 Export Markets
(Percent of total exports)



Source: IHS Markit; AMRO staff calculations.
Note: Data consists of the shares of top 10 export partners/markets for each subregion for that particular year. As such, the composition of regional groupings (e.g., Europe) changes over time. The subregional aggregates were calculated using simple averaging of partner shares.

Rising Importance of Services Trade

"Services offshoring is the new globalization frontier."

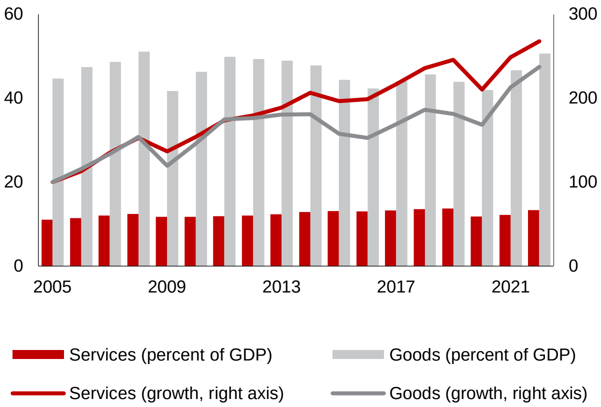
World Trade Organization, October 2023

In contrast to global goods trade, cross-border trade in services continues to grow at a robust pace. Trade in services stands at a fraction of global goods trade: at about 15 percent of global GDP in 2022, this is less than half the share of goods (Figure 2.65). The heavy weight of goods in global trade masks the diverging growth trajectories between the two, with the brisk expansion in services trade serving as a counterweight to the argument that globalization has already peaked (AMRO 2018, 2019). Globally, Europe remains the largest services trader—accounting for nearly half of total services trade in the past 10 years—and is also the biggest net service exporter. Asia comes in second, followed by the Americas (Figure 2.66). The Asian region has traditionally been a net services importer, although its services trade deficit has continuously shrunk since 2014. It first became a net exporter in 2022, owing to the robust expansion in exports of information, computer, and telecommunications services.

Global services trade has been dominated by developed—rather than developing—economies. Over two-thirds of global trade in services is largely driven by advanced economies, primarily as the largest service flows are linked to knowledge-intensive activities and intellectual property. In 2022, about 60 percent of global services traded across the world are categorized as "other services": these are dominated by professional and management consulting services, as well as services that are required in highly technical fields.[39] Service flows that are knowledge-intensive tend to be largely concentrated in developed economies, where "superstar effects … reinforce the persistence of knowledge hubs" (Seong and others 2022). In fact, the top 10 exporters of services—led by the United States, United Kingdom, and Germany—are also the top importers (Figure 2.67). Nevertheless, supply (and demand) from emerging market and developing economies have increased over the years. Asia, in fact, is the fastest-growing region for cross-border trade in services—mostly led by China and India (Figure 2.68).

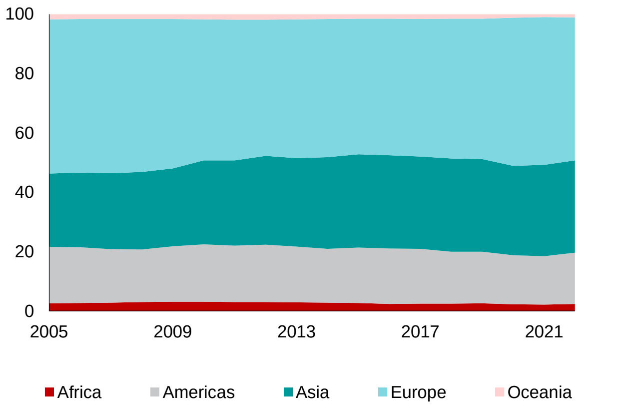
39/ "Other services" as defined by United Nations Conference on Trade and Development (UNCTAD) is comprised of the following categories: construction; insurance and pension services; financial services; charges for the use of intellectual property not included elsewhere; telecommunications, computer and information services; other business services; personal, cultural and recreational services; government goods and services not included elsewhere; and services not allocated elsewhere.

Figure 2.65. World: Goods and Services Trade
(Percent of GDP; index, 2005 = 100)



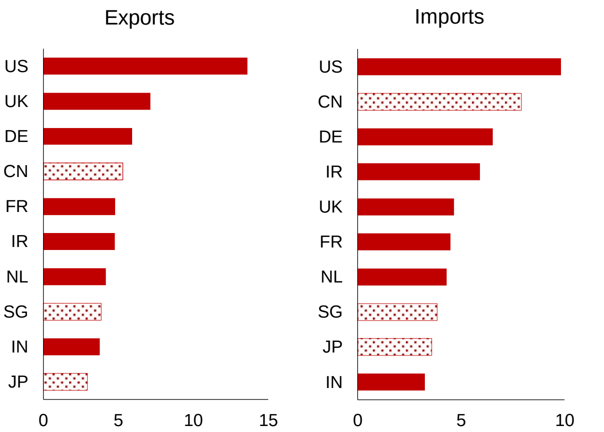
Source: World Development Indicators, World Bank; United Nations Conference on Trade and Development; AMRO staff calculations.
Note: Data refers to exports and imports.

Figure 2.66. World: Services Trade, by Region
(Percent of world trade)



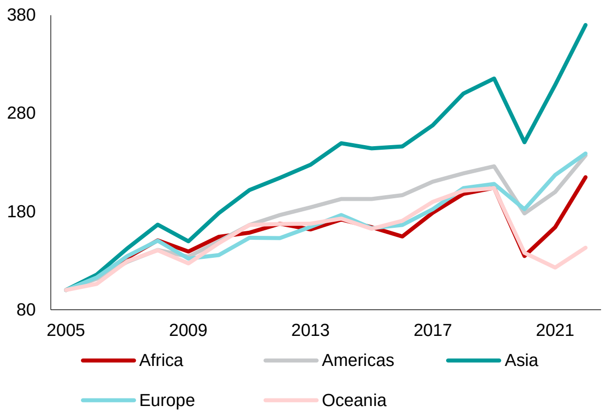
Source: United Nations Conference on Trade and Development; AMRO staff calculations.

Figure 2.67. Top Services Traders, 2018–2022
(Percent of world services trade)



Source: United Nations Conference on Trade and Development; AMRO staff calculations.
Note: CN = China; DE = Germany; FR = France; IN = India; IR = Ireland; JP = Japan; NL = Netherlands; SG = Singapore; UK = United Kingdom; US = United States. Patterned bars represent ASEAN+3 economies.

Figure 2.68. World: Growth in Services Trade, by Region
(Index, 2005 = 100)



Source: United Nations Conference on Trade and Development; AMRO staff calculations.

The momentum behind digitally deliverable services is particularly strong. Digital delivery is empowering skilled workers to export their services and expertise to anywhere and anyone in the world (UNCTAD 2023c). The COVID-19 pandemic especially induced a quicker adoption and consumption of digital services globally, and specific segments—such as e-commerce and digital financial services—are expected to thrive well into the future as new growth drivers (AMRO 2022). Many types of services can be delivered digitally over ICT networks, and more so because advances in technology have rapidly lowered many barriers to their trade.[40] In 2010, less than 45 percent of total services trade globally are considered digitally tradeable, and this rose as high as over 60 percent during the COVID-19 pandemic.[41] Consequently, developed economies—with their much more advanced ICT capabilities, better access to technological goods and services, and larger financial resources—also dominate trade in digitally deliverable services, although this dominance is slowly being eroded. In particular, trade in intermediate services—many of which are and can be digitally provided by developing economies—is poised to become the next growth driver of cross-border services (Baldwin 2022).

Currently, trade in services comprise a small portion of the ASEAN+3 economy, despite growing much faster than the region's merchandise trade. Nearly a fifth of global services trade originates from ASEAN+3 economies. However, cross-border trade in services still account for less than 10 percent of the region's GDP in 2022, a not-so-significant share. Services exports, for example, have grown faster than goods exports since 2006—helped by advances in technology and favorable regulations—even when considering the impact of the

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[40] Digitally deliverable services (a subset of "other services") is a combination of insurance and pension services; financial services; charges for use of intellectual property not included elsewhere; telecommunications, computer, and information services; research and development services; professional and management consulting services; architectural, engineering, scientific, and other technical services; trade-related services; other business services not included elsewhere; audio-visual related services; health services; education services; and heritage and recreational services (IMF-OECD- WTO 2023).

[41] However, trade that is *actually* delivered digitally is much smaller than this ratio (UNCTAD 2023b).

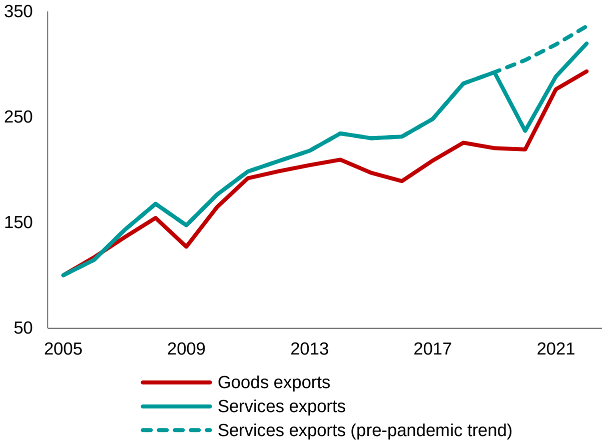
pandemic (Figure 2.69). The more technologically-advanced economies in the ASEAN+3—like the Plus-3 and Singapore—are the most involved in international services trade. This reinforces the concentration patterns observed globally when it comes to knowledge-intensive flows (Figure 2.67).

Most economies in the ASEAN+3 region have yet to fully harness the potential of modern—and digitally deliverable—services as a growth driver. In contrast to traditional services, modern services can be traded "without proximity between buyer and supplier" (Loungani and others 2017). Hence, they are not subject to the same constraints faced by traditional services, and they tend to employ skilled workers and more technology (Alege and Ogundipe 2013).[42] In ASEAN+3, there appears to be a mild positive relationship between the volume of an economy's services trade activity and its ability to leverage on modern services. Singapore, being a global business hub and leading financial center, is the biggest regional trader in international services, with its total trade (services exports and imports) accounting for about 126 percent of its GDP. The next biggest is Hong Kong—with trade in international services at 40 percent of GDP—owing to its large financial services sector (Figure 2.70). For nearly half of the ASEAN+3 economies, however, trade in services accounts for less than 10 percent of total output, highlighting a significant untapped potential for export growth. Most of the ASEAN+3 economies are also net importers of services—except for Cambodia, Myanmar, the Philippines, Hong Kong, and Singapore (Figure 2.71).

Among the modern services sector's advantages is its resilience to various external shocks. Despite various shocks in recent years—for example, the global financial crisis and especially the COVID-19 pandemic—ASEAN+3's modern services sector has grown faster than both traditional and nondigitally deliverable counterparts (Figure 2.72). A significant portion of the region's modern services are related to professional, technical, and financial services, and those related to the use of intellectual property. This pattern reflects the attractiveness of several ASEAN+3 economies as global business service centers, powered by their highly competitive, skilled, multilingual workforces. The region, in fact, has become a net exporter of these skilled services since 2017 (Figure 2.73). While China continues to experience rapid growth in its exports of modern services, some ASEAN economies—led by Singapore and the Philippines—have also robustly grown them by leveraging on their comparative advantage (Figure 2.74).

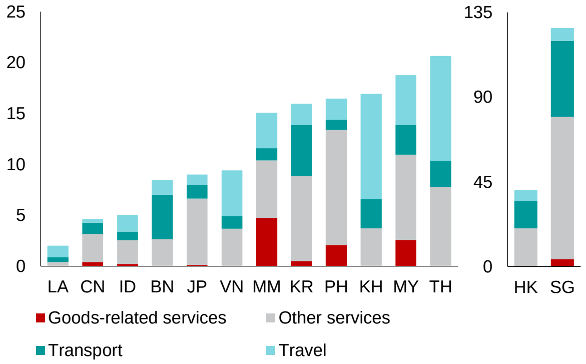
In sum, services trade—especially modern services—is a silver lining for the ASEAN+3 region amid a shifting trade environment. There is, however, a requisite precondition to reaping its benefits: minimizing constraints to trade. However, these remain pervasive globally—including in the ASEAN+3 region—as national trade and regulatory policies in individual services sectors are "often made with limited regard for economy-wide impacts" (OECD 2023).[43] Trade in services are mostly limited by domestic regulations or bureaucracy; for modern services, the hurdles are mostly due to technology (Baldwin 2022). OECD data suggests that ASEAN+3 economies are among those with the highest barriers to cross-border services trade, particularly when it comes to foreign entry and the movement of people (Figure 2.75). Digital services trade, on the other hand, is hampered primarily by the quality of infrastructure (Figure 2.76). While ASEAN+3 economies have managed to ease the number of barriers to overall services trade over time—especially by improving regulatory transparency—the constraints on its digital service trade has not substantially improved, reflecting the long-standing and persistent challenges in scaling up ICT-related infrastructure.

Figure 2.69. ASEAN+3: Goods and Services Exports
(Index, 2005 = 100)



Source: United Nations Conference on Trade and Development; AMRO staff calculations.
Note: Data refers to imports and exports.

Figure 2.70. ASEAN+3: Total Services Trade by Category, 2022
(Percent of GDP)



Source: United Nations Conference on Trade and Development; national authorities; World Bank; and AMRO staff calculations.
Note: BN = Brunei; CN = China; ID = Indonesia; JP = Japan; KH = Cambodia; HK = Hong Kong; KR = Korea; LA = Lao PDR; MY = Malaysia; MM = Myanmar; PH = the Philippines; SG = Singapore; TH = Thailand; VN = Vietnam.

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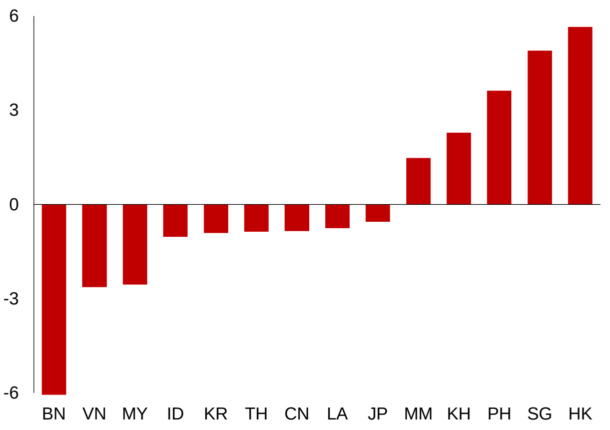
[42] ASEAN+3 service exports generally fall into four categories: (1) travel; (2) transport; (3) goods-related services—collectively, "traditional" services—and (4) other business services, under which "modern" services fall. Modern services and digitally deliverable services are sometimes used interchangeably.

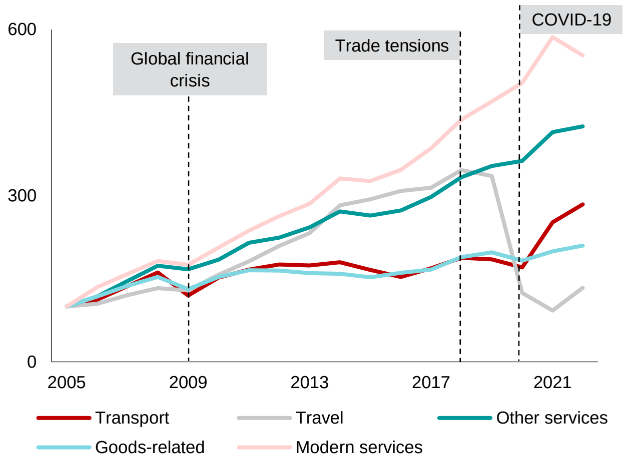
[43] These include licensing quotas, professional qualifications, as well as immigration rules, among others, that make it difficult for service providers to enter a market.

Figure 2.71. ASEAN+3: Net Services Trade, 2018–2022
(Percent of GDP)



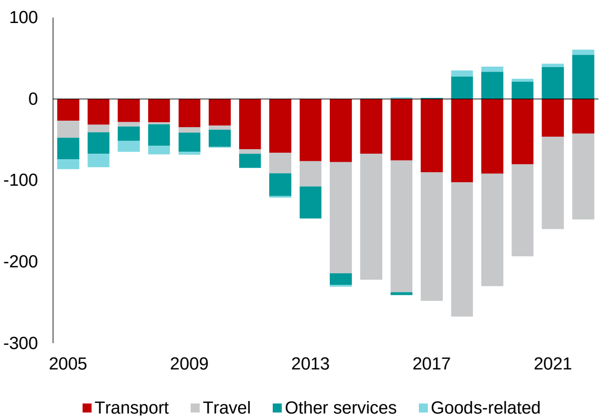
Source: United Nations Conference on Trade and Development; national authorities; AMRO staff calculations.
Note: BN = Brunei; CN = China; ID = Indonesia; JP = Japan; KH = Cambodia; HK = Hong Kong; KR = Korea; LA = Lao PDR; MY = Malaysia; MM = Myanmar; PH = the Philippines; SG = Singapore; TH = Thailand; VN = Vietnam. Data for Singapore has been sourced from SingStat.

Figure 2.72. ASEAN+3: Services Trade, by Category
(Index, 2005 = 100)



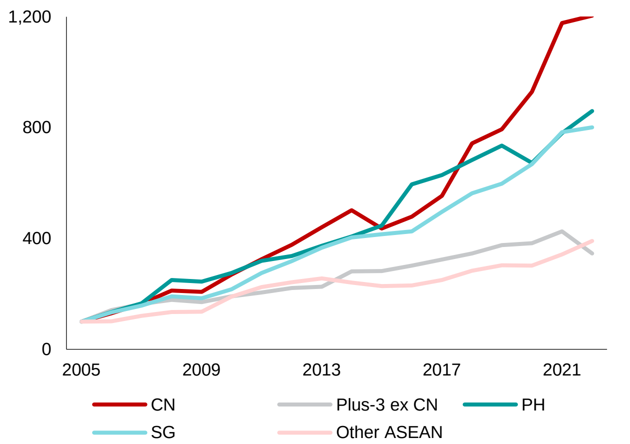
Source: United Nations Conference on Trade and Development; AMRO staff calculations.
Note: "Modern services" is a subset of "Other services".

Figure 2.73. ASEAN+3: Net Services Trade, by Category
(Billions of US dollars)



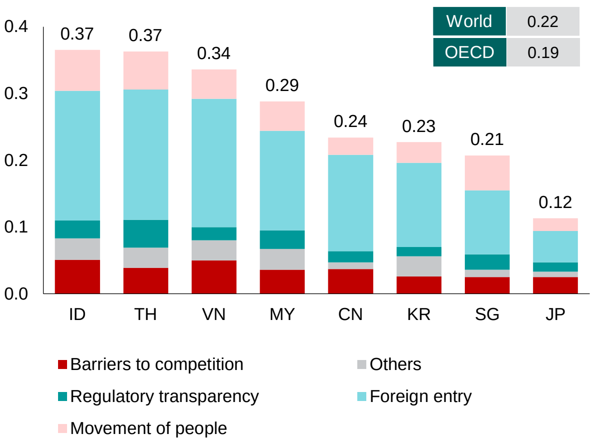
Source: United Nations Conference on Trade and Development; AMRO staff calculations.

Figure 2.74. Selected ASEAN+3: Modern Services Exports
(Index, 2005 = 100)



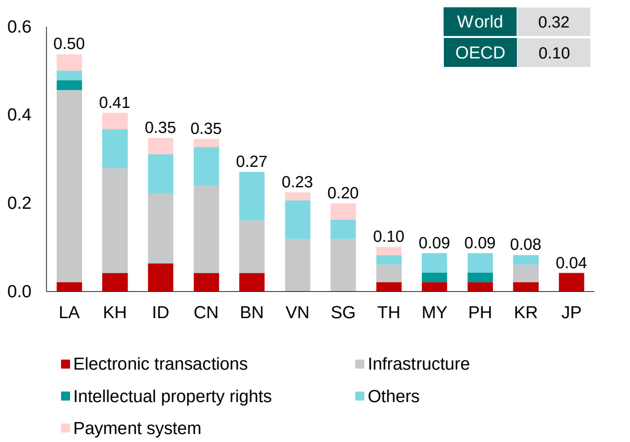
Source: United Nations Conference on Trade and Development; AMRO staff calculations.
Note: CN = China; PH = the Philippines; Plus-3 ex CN = Hong Kong, Japan, and Korea; SG = Singapore; VN = Vietnam.

Figure 2.75. Selected ASEAN+3: Services Trade Restrictiveness, 2023
(Score, most restrictive = 1)



Source: Organisation for Economic Co-operation and Development (OECD); AMRO staff calculations.
Note: CN = China; ID = Indonesia; JP = Japan; KR = Korea; MY = Malaysia; SG = Singapore; TH = Thailand; VN = Vietnam. The OECD Services Trade Restrictiveness Index measures regulations affecting trade in services in 22 sectors. Data for other ASEAN+3 economies are not available.

Figure 2.76. Selected ASEAN+3: Digital Services Trade Restrictiveness, 2023
(Score, most restrictive = 1)



Source: Organisation for Economic Co-operation and Development (OECD); AMRO staff calculations.
Note: BN = Brunei; CN = China; ID = Indonesia; JP = Japan; KH = Cambodia; KR = Korea; LA = Lao PDR; MY = Malaysia; PH = the Philippines; SG = Singapore; TH = Thailand; VN = Vietnam. The OECD Digital Services Trade Restrictiveness Index measures cross-cutting barriers that inhibit or completely prohibit firms' ability to supply services using electronic networks. Data for other ASEAN+3 economies are not available.